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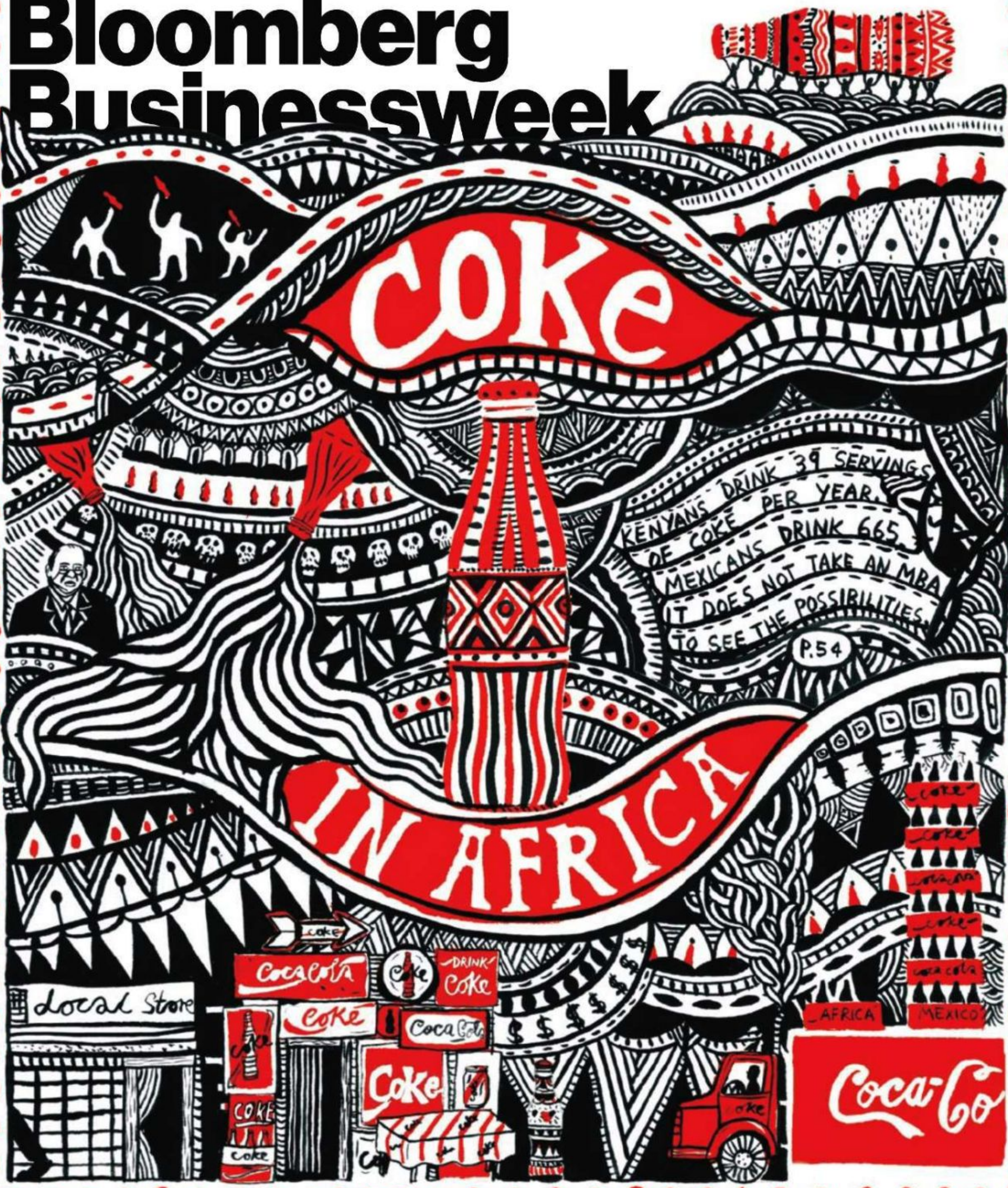
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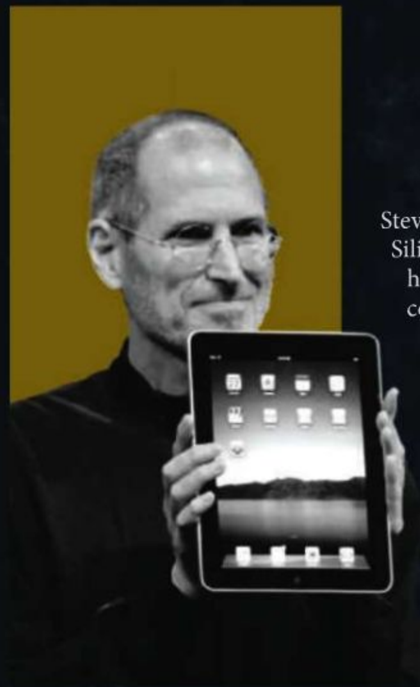
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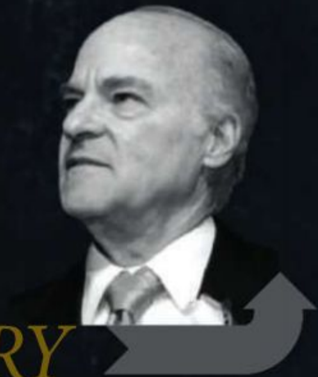
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Corrections & Clarifications

B Bid & Ask (Markets & Finance, Oct. 25) stated that Carlisle was buying a company called Hawk Performance. The company is called Hawk.

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Opening Remarks

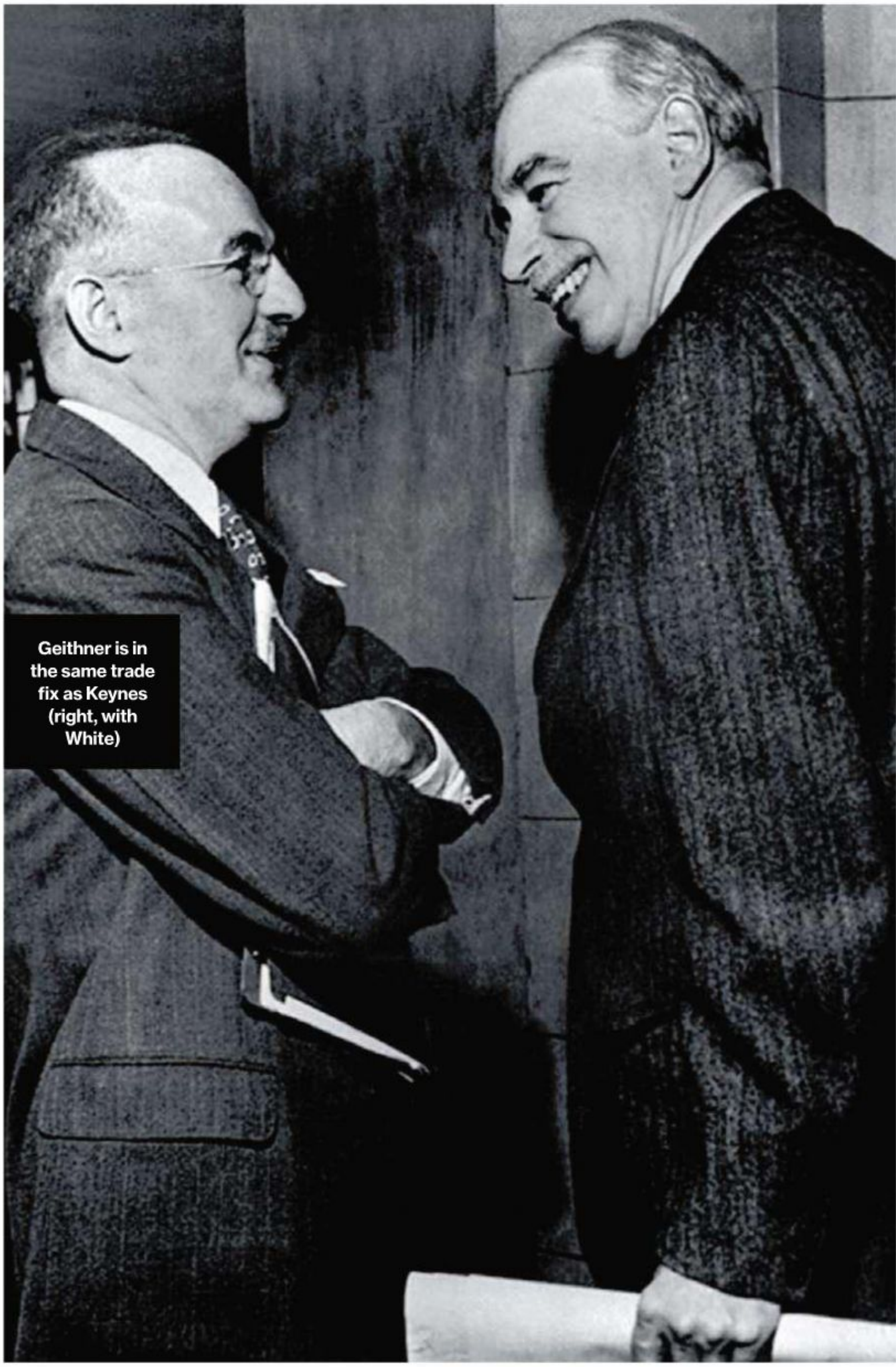
The Keynes Solution

The U.S., now the world's largest debtor, embraces the great British economist's 70-year-old argument. By Peter Coy

When Treasury Secretary Timothy Geithner traveled to Gyeongju, South Korea, for a late October meeting of the G-20 nations' finance ministers and central bank governors, he had history on his mind. The twin threats of deflation and beggar-thy-neighbor currency devaluation have been on the global agenda this year in a way perhaps not seen since 1944, when world leaders met in Bretton Woods, N.H., to build the postwar, post-Depression financial architecture that included the International Monetary Fund. Now as then, the issue is what to do about chronic trade imbalances that threaten global economic stability. Geithner's team prepared for the G-20 meeting by dusting off the IMF's founding document, which includes, as the secretary noted in an Oct. 6 speech in Washington, "a now-obscure paragraph" requiring the Fund to investigate countries with chronic trade surpluses and recommend how to shrink them. Finishing the thought in Gyeongju, he advocated a 4 percent limit on the size of countries' trade surpluses as a share of their economic output.

In so doing, Geithner was playing a role made famous in the 1940s by the British economist John Maynard Keynes. Geithner warned in Gyeongju, as he has many times before, that global growth will be hindered if indebted nations are forced to bear the full brunt of correcting imbalances. He urged surplus nations to shift "away from export dependence and toward stronger domestic-demand-led growth." Keynes said the same thing more ornately in 1942, vowing to "offset the contractionist pressure which might otherwise overwhelm in social disorder and disappointment the good hopes of our modern world."

This echo across the years is a reminder of how dramatically America's position in the world has changed. In Bret-



Geithner is in the same trade fix as Keynes (right, with White)

ton Woods, the U.S. delegation under Treasury official Harry Dexter White represented the world's biggest creditor, bestriding the world like a colossus. That's China's part now. At Gyeongju, as in other recent international parleys, the U.S. was reduced to the part that Britain played in the 1940s—a weakened power, running chronic trade deficits and uncertain of how to restart growth. Geithner's startling idea for limiting trade surpluses relied on language that, according to James M. Boughton, the official historian of the IMF, was inserted into the IMF's charter nearly seven decades ago at the insistence of the deficit-ridden British.

The role reversal brings to life a saying attributed to Rufus Miles, an aide to Presidents Eisenhower, Kennedy, and Johnson: Where you stand depends on where you sit. Geithner is channeling his inner Keynes, at least on trade matters, for the simple reason that it's in his nation's interest to do so. Says Boughton: "The shoe is on the other foot now. The U.S. authorities are trying to persuade other countries to share the burden."

Geithner didn't get the 4 percent caps—export powerhouses China and Germany shot down the idea, though the U.S. will try again when the G-20 heads of state meet in Seoul on Nov. 11-12 (page 31). The ministers did make the IMF a cop for bringing trade imbalances under control, and they promised to refrain from competitive devaluation. But they didn't say anything about countries like China, which, although not devaluing, are preventing their currencies from rising.

The outcome in Gyeongju won't quiet the growing chorus of American free-trade skeptics, who argue that unfettered global commerce is killing American jobs and industries. Ian Fletcher, an adjunct fellow at the U.S. Business and Industry Council, wrote in a Bloomberg News column on Oct. 26 that the U.S. should slap tariffs on imports "that compete with existing and startup domestic producers, if only as bargaining chips to force other nations to play fair." Nor will Gyeongju appease Congress. On Sept. 29 the House passed by 348-79 a bill directing the Commerce Dept. to treat currency undervaluation as a prohibited export subsidy. Although it applies to any country, China is clearly the No. 1 target. "If this risks upsetting the People's Republic of China, so be it," said co-sponsor Representative Tim Ryan, an Ohio Democrat.

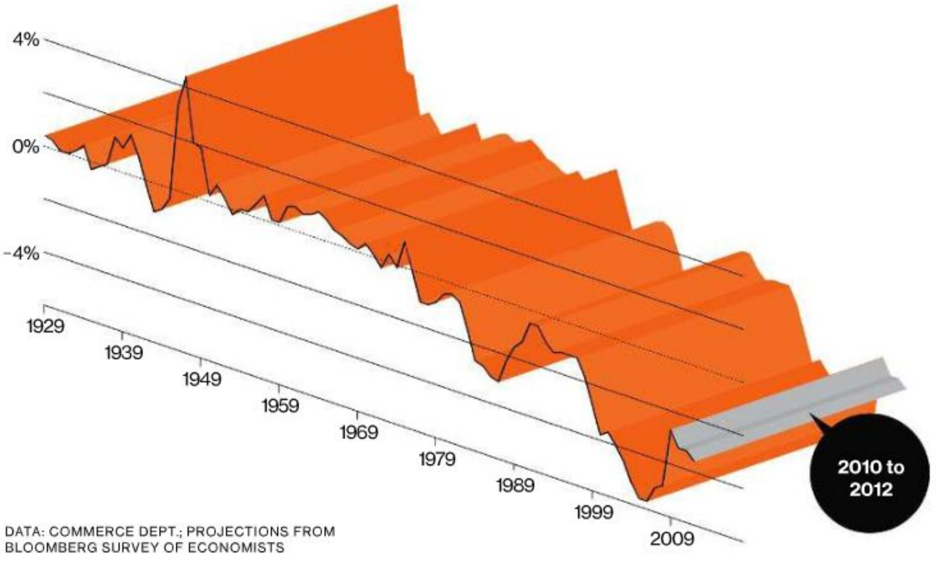
The Obama Administration has resisted congressional pressure for retaliatory measures on grounds that they could trigger a trade war that would harm the U.S. as well as its trading partners. But there are few other good options. Broadly speaking, there are just three ways to correct chronic trade imbalances. One is currency devaluation, and that's happening now: The dollar has fallen by one-third against major currencies since early 2002. Another is trade barriers, which the Obama Administration opposes except when authorized by the World Trade Organization. And the third is restrictions on investment in the U.S. That would force foreigners to spend their dollars on American goods and services rather than adding to their piles of Treasuries. It's such a heretical idea that it's not even up for discussion.

The optimistic view among economists is that trade imbalances will gradually diminish because of market forces. "Looking at it historically, I do think these things come and go," says Jagdish Bhagwati, a trade economist at Columbia University. Barry Eichengreen, an economist at the University of California at Berkeley, says the stresses in the international financial system can be traced to a disjunction between the real global economy, which has become multipolar, and the financial system, which remains overdependent on the U.S. dollar. Eichengreen argues in a forthcoming book, *Exorbitant Privilege*, that diminution of the dollar's role will relieve stresses in the system: "This will work itself out in time if nobody screws up."

It's easy for academic economists to preach patience. Not so easy for Geithner, who has been trying to demonstrate progress on trade before the midterm elections, to help minimize losses of Democratic seats in the House and Senate. In that respect, too, Geithner resembles Keynes, who famously said: "The long run is a misleading guide to current affairs. In the long run we are all dead." B
—*With Rebecca Christie*

From Surpluses to Deficits

U.S. trade balance as a share of gross domestic product (current account balance, including trade in goods and services and investment income)



DATA: COMMERCE DEPT.; PROJECTIONS FROM BLOOMBERG SURVEY OF ECONOMISTS

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Make Your Mark





Wine 'N Dine
A passion for wine and cheese prompted Beatriz Arremony (top) to open Brix. Within a few months, she opened her second business venture, Barnyard (bottom), with her husband.

Beatriz Arremony loves wine—so much so, in fact, that she dreamed of opening a cozy wine and cheese shop in her Manhattan neighborhood. There she would share her knowledge and love of wine and artisanal cheese with nearby friends and customers. That was her entrepreneurial vision.

Fortunately, three years ago, Arremony's vision became reality when she heard about a retail storefront that would soon be available that would be perfect for her wine and cheese shop. The exposed brick and big front windows were just what she had in mind. But a visit to the liquor license attorney brought bad news. First, liquor licenses take six months to be processed and, second, in New York State, wine and food cannot be sold under the same roof.

Undaunted, Arremony decided to focus solely on the wine at first. But since she did not want to give up the space she had just leased, she decided to start an interim business to pay the rent. Named While We Wait, the short-term venture served delicious, unconventional sandwiches to local residents and workers.

> "I realized [Brix] was going to work when customers I hadn't seen in a year came in to buy their wine for Thanksgiving and Christmas"

After developing a steady following of sandwich lovers, Arremony was granted a liquor license and converted her bustling operation into a wine store, named Brix . Most area residents rejoiced at the opening of the wine shop, but there were some non-wine drinkers who lamented the loss of their beloved sandwiches. So when space opened up around the corner from Brix a few months later, Arremony and her then-new-husband, Darrin, jumped at the chance to open a cheese shop, which they named Barnyard.

Drawing on Darrin's upbringing in the bakery business, Barnyard serves sandwiches, breads and tasty drinks, in addition to hard-to-find cheeses.

Despite its trendy New York City location, the down-to-earth Arremonys worked hard to ensure Barnyard was anything but, says Darrin Arremony. "We wanted to be anti-cool," so that anyone and everyone would feel comfortable dropping in. They even featured farm animals in the store's logo to convey their laid back atmosphere.

"People loved Barnyard immediately," says Beatriz. "They thanked us for opening it," says Darrin.

Little did they know that separate but complementary stores only a few yards away from each other could be good for business. "The best thing I ever did for my wine shop was open the cheese shop," says Beatriz Arremony. Sales doubled the first year.

But it wasn't until the holidays rolled around the following year that Beatriz Arremony knew they had successfully made their mark. "I realized [Brix] was going to work when customers I hadn't seen in a year came in to buy their wine for Thanksgiving and Christmas," she says.

The Arremonys are just as smitten with their neighborhood and its residents as the residents are with them. By focusing on serving the individuals and families within a few blocks of their stores, the entrepreneurial duo has developed a solid following and a growing circle of friends, who also happen to buy from them. "We want to be fixtures in the community," Darrin says, perhaps not realizing how much their enterprises have already shaped what the Lower East Side has to offer.

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Acceptance rates based on global, not domestic, data. The Nilson Report, September 2009, Issue 933.
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Until Neil Armstrong walked on the Moon, he would not rest. Nor would his crew. (Sea of Tranquility, 1969.)



Until you get to where you want to be.

You only need to know one thing.

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Although that's comforting to hear.

It isn't that we win awards for our services.

Although we do. Often.

It isn't that we have access to resources, giving us strength and depth across equities, fixed income, structured products and currencies.

Although that, too, is nice to know.

It isn't that.

In fact, it's none of the above.

It's one simple thing.

Until you achieve your goal...

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Sichuan swimmers: Marketers will want to know more

ZHONG MIN/CHINAFOTOPRESS/GETTY IMAGES

A Head Count May Reveal China's Secrets

▶ **The sixth national census will try to tally migrant workers and unregistered children**

▶ **"Carry Out the Census, Build a Harmonious Society"**

On Nov. 1, more than 6 million government workers will go door-to-door in China asking residents to fill out census questionnaires. For 10 days they will scour 31 provinces, 330 cities, 2,800 counties, and 680,000 villages to find out the true composition of the 1.3 billion population. The Public Security, Labor, and Housing Ministries and Family Planning Bureau will all help. To rally support, a massive educational campaign is under way. "Carry Out the Census, Build a Harmonious Society" reads one giant green banner in a South Beijing alleyway.

The most daunting challenge will be getting accurate numbers for migrant workers, the uprooted rural Chinese who move ceaselessly between village and city looking for work. Estimates of the migrant population range from 140 million to well over 200 million. With no fixed abode and often fearful of authorities (the household registration system restricts where people can legally live and work), these Chinese have little incentive to oblige the authorities. Special measures will be needed, says Feng Nailin, vice-director of the census effort. They include public promises of no retaliation against those who have not registered their residence properly. Census takers will visit warehouses, factories, and construction sites, where migrant workers can commonly be found.

Ten years ago the vast majority of Chinese worked for the government, either as civil servants or in one of hundreds of thousands of state enterprises. Today many more Chinese work in the private sector and are less inclined to open up when Beijing comes knocking. Many fear revealing too much could

catch the attention of the tax bureau or the police (underpayment of taxes is common). A confidentiality agreement will be shown to respondents. "Information will flow one way—from [other ministries] to us, not the other way around," says Feng, who adds that people will not be questioned about their income.

45%

The likely percentage of Chinese who now live in cities

With more Chinese having children in defiance of the one-child rule, the mainland now has perhaps millions of unregistered children, mostly in rural areas. People are loath to own up to the real size of their families, especially when fines for extra children can cost several months of a family's income. Fines for breaking family planning policy will be lowered for those who come clean during the census, and authorities will let poor families pay on an installment basis.

The World Bank expects the census to reveal that China is adding only 6.5 million new people annually, a very small number for such a huge population. The census will also confirm that the number of women of childbearing age, those from 15 to 49 years old, peaked in 2008, according to researchers at ad agency Ogilvy & Mather China. That means fewer young people will have to provide for ever more retirees. "China has to start asking: How are we going to pay for supporting these elderly?" says Louis Kuijs, economist at the World Bank in Beijing.

The workforce—those from 15 to 64 years old—will plateau at almost 1 billion in 2015 and then start to shrink, figures the World Bank. These trends will help drive labor costs higher. "Over the next 10 years, this will become a serious problem," says Zhang Juwei, deputy director of the Institute of Population and Labor Economics at the Chinese Academy of Social Sciences.

All the census data will be put to good use by China's policymakers, says Vice-Director Feng. Knowing where migrant workers live and work and how many children Chinese have could speed revisions to China's household registration system and its one-child policy. Ordinary Chinese are less sanguine. In an online poll on sina.com, one-third of respondents felt it was unsafe to let census takers into their homes.

Foreign investors are also eager to glean insights from the census. With some 13 million new urban residents every year, the census is expected to reveal that close to 45 percent of Chinese live in cities, up from 36 percent in 2000. Even more interesting will be data likely confirming that most of China's fastest-growing cities are smaller ones in the interior. "To the extent the census gives more information on regional and local differences, that is interesting for anyone doing business in China," says Christian Murck, president of the American Chamber of Commerce in China.

The results of the head count could change what and how companies market in China, says Kunal Sinha, chief knowledge officer at Shanghai-based Ogilvy & Mather China. Advertising on trains might be wise, given the growing buying power of migrants. And if families are larger than most thought? "That has huge implications on everything from package sizes of milk, jam, and cookies to how much a family spends at McDonald's or KFC," says Sinha. "If we get a grip on the number of children, this would be very valuable."
—*Dexter Roberts*

The bottom line *The Chinese 2010 census will tackle the hard tasks of tracking down migrant workers and counting unregistered children.*



Icons

A Samurai Reformer Inspires a Nation Adrift

▶ Politicians and executives embrace the latest bout of Ryoma mania

▶ "There are parallels between ... that period and what's happening today"

From Prime Minister Naoto Kan to **Sapporo Beer** executives, many in Japan are invoking the legacy of Ryoma Sakamoto, the 19th century samurai who helped modernize the nation's government and economy. It's hard to imagine what Ryoma (known in Japan by his given name) would make of his country's present-day challenges, ranging from a stagnated economy, recently overtaken by China as the world's second biggest, to a political system that produces short-lived governments.

Yet that hasn't stopped Japanese leaders from co-opting the much-admired maverick, who helped pave the way for the overthrow of the Tokugawa shogunate in 1868.

Man up, Japan: The tough-minded Ryoma appeals today

Kan mentioned Ryoma in a speech on June 8, the day he became Premier, drawing comparisons between his new Cabinet and the militia groups of the samurai era. Facing an economy saddled with falling consumer prices, rising debt, and an aging population, Kan pledged that his party would "take on issues with fearless courage."

The Ryoma mystique, which has inspired at least eight TV series, is especially alluring today given that "Japan is suf-

FROM LEFT: JTB PHOTO; AP PHOTO(2); BLOOMBERG; ALAMY

Government Budgets

State-Owned Shares Up for Grabs

Governments worldwide need to pay down budget deficits and rekindle investor confidence. One way to do this is to sell big stakes in state-owned companies to local and foreign investors. That's happening in India, Russia, Poland, Malaysia, and Indonesia, among other countries. The markets have been enthusiastic: The stock offering in India's state coal company was heavily oversubscribed. After decades of privatizations, there's plenty left to sell.

900
State companies, including Aeroflot, may offer shares



Russia

Moscow just announced plans to sell stakes in Russia's two largest lenders, VTB Group and Sberbank. That's just the start: Plans are afoot to sell shares in 900 state companies, including oil major Rosneft, airline Aeroflot, Russian Railways, and oil pipeline Transneft. There could be some tempting deals from the city government of Moscow, which may offer up its city-owned companies, including Bank of Moscow and Atlant-Soyuz airline.

$3.4
Billion was raised from a share sale by Coal India



India

Coal India, the world's biggest coal producer, raised $3.4 billion in India's biggest IPO ever. The government plans to sell shares in seven more companies in the next five months. Next up: Power Grid of India, followed by sales in Indian Oil, Oil and Natural Gas, and Steel Authority of India.

$8.8
Billion is the target for Poland's share sales



Poland

The government hopes to raise 25 billion zloty ($8.8 billion) to help the budget. It has already sold stakes in energy, insurance, copper, and phone companies. Investors are waiting for the government to sell a 51 percent stake in power utility Enea and 64 percent in the Warsaw Stock Exchange, the region's biggest.

32.2%
Is the size of the state's stake in the post office



Malaysia

Khazanah Nasional, the sovereign wealth fund, has been selling stakes in listed companies. Its 32.2 percent stake in Pos Malaysia, the postal service, may soon be sold. A planned offering of Petronas Chemicals, a division of state-owned Petronas, may raise as much as $4.2 billion and be Southeast Asia's biggest IPO this year.

DATA: COMPANY, GOVERNMENT REPORTS

fering from many problems," says Masaaki Noda, a professor at Kwansei Gakuin University. "Ryoma has been exploited over and over again in society, for Japan's militarism, and his ghost still remains."

Ryoma mania is also a big business. Visitors to Ryoma's birthplace of Kochi prefecture, on the southern island of Shikoku, rose 71 percent in the first half of this year, to 2.4 million, from a year earlier after broadcaster **NHK** started airing its popular *Ryoma Den* drama in January. Interest in the samurai has added 40.9 billion yen ($502 million) to Kochi's economy, or about 1.8 percent of the surrounding region's gross regional product, the Bank of Japan said in June.

Sapporo Holdings, Japan's fourth-biggest brewer, in September started nationwide sales of a beer called Oi! Ryoma. It sold all 480,000 cans of the limited edition of its black-label beer featuring a cartoon depiction of Ryoma, says company spokesman Katsuhito Ogawa. Nationwide, the company hopes to sell 1.2 million cans of the beer this fall. **Daihatsu Motor** has used an actor playing Ryoma in a commercial for its Tanto Exe car.

Born the son of a samurai in 1835, Ryoma's efforts to modernize Japan included his Eight-Point Program, which outlined plans to transform it into a constitutional monarchy, institute a foreign policy, and regulate trade. That formed the basis for the Charter Oath, the framework for Japan's first constitution in the Meiji Restoration, according to the Ryoma Sakamoto Memorial Museum website.

"Almost the entire Restoration program is contained within this program of Ryoma's," writes Marius B. Jansen, author of *Sakamoto Ryoma and the Meiji Restoration*. "Its language would be echoed in the Charter Oath of 1868." Before he was murdered at age 33 by still-unknown assassins loyal to the shogun, Ryoma established Japan's first trading company, which led to the creation of the **Mitsubishi Group**. He is also regarded as the father of the imperial navy.

"Ryoma said that if Japan didn't unify as one country, it couldn't respond to the West," says Kenshiro Mori, the director of the Ryoma Memorial Museum in Kochi. "There are parallels between the confusion of that period and what's happening today." —*Adam Le*

The bottom line *Meiji Era reformer Ryoma Sakamoto has become a source of inspiration to Japanese in tough economic and political times.*

Diplomacy

After the Midterms, Time for a Road Trip

- Obama heads to India to mingle with CEOs and do some business
- "When a President shows up ... it's time to get the deal done"

Just four days after a probable Democratic setback in the midterm elections, President Barack Obama will gas up Air Force One for an 8,000-mile trip to India, the first leg of a four-nation tour. He will reinforce ties with Muslim Indonesia, enlist South Korea and Japan to the American side of the currency debate with China, and strengthen diplomatic and economic ties with India.

Obama, who has been seen as hostile to business in polls of executives and investors, has a golden opportunity to promote U.S. corporate interests in India and show how business-friendly and job-focused he can be. While in Mumbai—his first stop—the President will attend a summit of American and Indian chief executive officers. The American C-suite elite will be there in force.

Global Economics



Why TBS is cuckoo for Coco page 21 ▶

Attendees include Jeffrey Immelt of **General Electric**, Jim McNerney of **Boeing**, David Cote of **Honeywell International**, and Indra Nooyi of **PepsiCo**. They all put India high on their list of target markets.

With Obama in attendance, Indian companies and ministries will probably ink a half a dozen deals with U.S. outfits, some of them months in the making. There's a $4.5 billion order for Boeing C-17 transports, says Ron Somers, president of the U.S.-India Business Council. He says the Indians may announce a $4 billion contract for either GE or **Caterpillar** to supply diesel locomotives.

While it's not clear that Obama will have to step into any last-minute negotiating glitches, his presence helps. "When a Cabinet official–or even better, a President–shows up, everybody knows that's the time to get the deal done," says William A. Reinsch, president of the National Foreign Trade Council in Washington. —*Hans Nichols*

The bottom line *President Obama will travel to India after the midterms. The trip gives him a chance to help U.S. companies land important contracts.*

Emerging Markets

The Next Big Thing— Or the Next Sure Loser?

▶ **The BRICs are bubbly, unless you believe a huge shift is under way**

▶ **Going overseas**
Emerging market flows as a percentage of total fund assets



DATA: CITI INVESTMENT RESEARCH

Federal Reserve Chairman Ben Bernanke has tried everything to feed the U.S. economy the liquidity it needs to revive. In the process, he has conjured up more than $1 trillion of fresh monetary stimulus out of thin air. Inevitably, much of it has ventured overseas in search of yield. The big beneficiaries have been the stock markets of the emerging-market economies. Since its low in March 2009, the MSCI Emerging Market Index is up 135 percent, vs. 75 percent for the Standard & Poor's 500-stock index. While the two indices have roughly the same price-earnings ratios, the discrepancies in performance are striking.

Many investors now worry that the ardor for emerging markets will destabilize the global economy. Others see a long-overdue rebalancing. The question: Should investors double down–or stay the hell away?

It's the emerging emerging-market bubble debate of 2010. A case can be made that emerging markets have gotten way ahead of themselves. The week ended Oct. 20 saw record inflows to emerging-market mutual funds and exchange-traded funds. The $68.5 billion invested so far this year is on pace to shatter last year's record $83.2 billion, reports market researcher EPFR Global. "While improved risk appetite is to be welcomed, one proviso is just how narrow the investor focus on emerging equities is at this point," wrote Michael

Infrastructure

Potholed Roads, Rusting Bridges, Leaking Dams

One of the big concerns of both political parties in the U.S. is fixing the nation's infrastructure. Last year's American Recovery and Reinvestment Act set aside almost $72 billion for repairs and fresh infrastructure projects. According to the American Society of Civil Engineers, that's just a down payment on the $2.2 trillion that should be spent through 2014.

■ Estimated infrastructure **spending,** 2009-14
□ Estimated infrastructure **need,** 2009-14



Aviation

Spending	Need
$45bn	$87bn

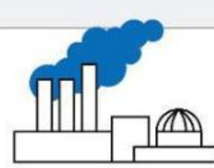
The critical issue is to roll out the Next Generation Air Transportation System, which will move air traffic control from a ground-based radar system to a satellite-based system. NextGen will allow more efficient routing of planes.



Water

Spending	Need
$140bn	$255bn

Leaking pipes lose some 7 billion gallons of drinking water a day. Americans are using more water: 179 gallons per capita per day, up 20 percent from 1950. Many reservoirs, treatment plants, and pumping stations are nearing the end of their "design life," the number of years they were intended to function.



Energy

Spending	Need
$34.5bn	$75bn

Demand for electricity has grown more than 25 percent since 1990. While investment in transmission facilities has increased recently, the nation's electric utilities may need as much as $1.5 trillion in investment by 2030. Power outages and other disturbances cost the economy up to $180 billion a year.



Solid Waste

Spending	Need
$32.5bn	$77bn

Some good news: In 2007, 33 percent of the trash generated in the U.S. was recycled or composted, compared with 30.1 percent in 2000. Still, the U.S. produced 254 million tons of municipal solid waste in 2007, up from 239 million tons in 2000, according to the Environmental Protection Agency.



Roads and Bridges

Spending	Need
$351.5bn	$930bn

More than 26 percent of U.S. bridges are either structurally deficient or obsolete: The average bridge is now 43 years old. On the roads, from 1980-2005, auto traffic increased 94 percent and truck traffic doubled. The number of highway lanes as measured in miles increased by only 3.5 percent.

DATA: AMERICAN SOCIETY OF CIVIL ENGINEERS

FROM LEFT: ART STREIBER/TBS; HARUYOSHI YAMAGUCHI/BLOOMBERG; ANDREW HARRER/BLOOMBERG

Quoted

"I would say globally that 97 percent of the rare-earth mineral supply comes from China. And the Chinese have been saying that they want to tighten their resource management. So it certainly will not be good for our own resource security to rely on a single country. We're in the process of diversifying our sources."
—Seiji Maehara,
Foreign Minister of Japan



Hartnett, chief global equities strategist at Bank of America Merrill Lynch, in an Oct. 20 note.

The hunger for emerging-market investments is more striking from a historical perspective. In 1990, eight emerging-market equity funds had a combined $380 million in assets, according to Morningstar. Now 288 funds manage $365 billion. "What happens when you have a compelling investment case and too much liquidity? You get rampant asset price inflation," wrote Dylan Grice, a London-based global strategist at Société Générale, on Oct. 22. "Bubbles always start with a compelling story. … Emerging markets are the compelling story du jour."

Believers in a new era are more sanguine. "Emerging markets get a lot of performance-chasing," concedes Lawrence Weinman, a Los Angeles investment adviser. "But I do think that beneath the hot money flows there is a growing realization that the relative economic growth in the world just won't be in the States." Weinman says the investors he works with are changing their allocation models to commit more to China, Brazil, India, and other fast-growing markets.

Consider, for example, how far China has come vs. how far it has left to go. According to economic research firm GaveKal, 90 percent of Chinese exports come from just 9 of its 31 provinces. The other 22 now have a voracious demand for road, rail, and air infrastructure. Low interest rates in the West, says GaveKal, will disproportionately benefit the developing world because there is more opportunity for investment growth. According to Bloomberg and the International Monetary Fund, China's economic output may exceed 10 percent of the world's total within two years, compared with 2 percent in 1987. The Group of Seven developed nations—the U.S., Japan, Germany, Canada, Italy, the U.K., and France—are tracking to produce less than half of global output by 2012, compared with 70 percent in the mid-1980s.

Bubble or not, developing economies are struggling with their newfound riches. "They are not desperate for capital inflows, and currency appreciation is hurting their exports," says Ravi Ramamurti, director of the Center for Emerging Markets at Northeastern University.

Colombia, whose main stock index is up 50 percent this year when translated into dollars, is considering capital controls to stem its peso's runup. Thailand's baht is at a 13-year high; its government is mulling a tax on foreign gains made on its bonds. This month Brazil twice raised taxes on foreign investors to guard its exports from what Finance Minister Guido Mantega called a global currency war.

If only the world could be inherited on the installment plan.
—Roben Farzad

The bottom line *Investors are divided between those who predict an emerging-market bubble and those who see a permanent shift in global equities.*

Lending

Loans Are Trickling Out to Borrowers

▶ Banks, still stingy, at least aren't getting any stingier

▶ "The recovery will be very slow. We have a long road back"

Khalique Rehman, who runs **My Pain Clinic** in McDonough, Ga., got a $1.8 million loan this month from Atlanta-based **Private Bank of Buckhead**. "I was surprised because everyone says it would be so difficult," says the 46-year-old physician, who plans to double the space of his eight-employee practice and hire another doctor and possibly a nurse. "I am really happy."

American banks increased credit in July, August, and September, the first consecutive gains since October 2008, according to Federal Reserve data released on Oct. 15. Commercial

Tom Keene's EconoChat

Tom talks with former Fed Vice-Chairman and current Princeton economist **Alan S. Blinder** about Fed policy

What kind of policy is the Fed pursuing right now?
They are making it up as they go along. It looks like the version of quantitative easing that they are about to embark upon is a lot like what the Japanese did between 2002 and 2006 when they bought government bonds.

You have really pushed back against Pimco's "new normal." Do you continue to believe that "new normal" misses the economic path of the U.S.?
The thing I take issue with is the idea that the trend rate of growth of the U.S. has been permanently lowered by these events. I look at productivity in recent quarters—and really in the whole bad period—as having been excellent. That doesn't make me pessimistic at all about our long-run ability to grow GDP and, by the way, jobs.

Would you support a British-style austerity budget for the U.S.?
I do not support it at all. There are a few instances in history where that has worked, but you would not want to bet on it and it is certainly not the norm, especially not for a country like the U.K. or the U.S., which still has its own currency and is able to go to the capital markets to raise funds. You know, there was a kind of a false generalization from the case of the Greeks. If you look at what happened with Greece, they sort of ran out the string. They could not borrow anymore. They could not appreciate their currency. This is not the situation facing us.



Keene hosts Bloomberg Surveillance *7-10 a.m., 1130AM in New York, XM 129, Sirius 130.*

Global Economics

and industrial loans rose in July and August after dropping 25 percent, the data show. Banks eased lending standards in the second quarter for the first time since the credit crisis began, the Fed reported on Aug. 16.

Some types of lending, including commercial real estate and credit cards, continue to lag. There's also the possibility of a continued decline in U.S. home prices and problems with improper documentation of foreclosures, according to Mark Vitner, a senior economist at Wells Fargo. "We are likely to see bank lending increase, but at a very modest pace," he says. "The recovery will be very slow. We have a long road back."

0.9%

Expansion of bank credit in September

At least there's a road. "Lending is no longer collapsing," says Neal Soss, chief economist at Credit Suisse in New York. "When you're in a hole, the first thing is to stop digging deeper." Fed officials cited the improvement at their Sept. 21 meeting, according to minutes released Oct. 12. "There were some signs that credit conditions had begun to improve for smaller firms," the minutes said.

Some borrowers still don't see much change. Brian Rist, who runs a Fort Myers (Fla.)-based hurricane-protection company, says he's disappointed that a loan he's negotiating may require him to put up family assets as collateral, even though his business is profitable and has $13 million in revenue. "Banks are trying to fend off as much risk as they can," he says. "We have a 16-year track record and have never been late on any notes. I have no choice" but to guarantee the loan personally.

Fed data show that most of the credit growth comes from banks buying securities, including mortgage-backed bonds, rather than making loans, as demand is still weak. Perhaps 2011 will be better. **Bank of America** said on Oct. 14 it plans to hire 1,000 employees in the next year to focus on companies with sales of $3 million or less. Ⓑ

—Steve Matthews

The bottom line *Tentative signs of a thaw in bank lending are appearing. Yet commercial real estate and credit card lending still lag behind.*

Seven Days

Events of note in the week ahead

by Ira Boudway

01

Bank of Japan releases minutes from Oct. 4-5 board meeting

U.S. personal income and spending for September

▶ **Ontario Economic Summit:** Speakers at the annual Niagara-on-the-Lake gathering include economist David Rosenberg and Canadian Pacific CEO Fred Green.



02

Election Day in the U.S.

Earnings reports from Discovery Communications, Kellogg's, OpenTable, MasterCard, and Pfizer



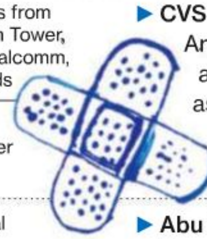
▶ **Archer Daniels Midland earnings:** The grain processor's net income is almost flat amid rising corn prices.

▶ **Federal Open Market Committee:** The FOMC begins a two-day meeting.

03

Earnings reports from Aetna, American Tower, News Corp., Qualcomm, and Whole Foods

U.S. vehicle sales for October



▶ **CVS Caremark earnings report:** Analysts expect earnings to slump about 16 percent from last year, as the stalled economy causes people to put off medical treatment.

04

Brazil's industrial production for September

Earnings reports from Apache, CBS, Kraft Foods, and Starbucks

▶ **Abu Dhabi Art:** The emirate hosts its second annual contemporary art fair with exhibits from 47 galleries worldwide.



05

Germany's factory orders for September

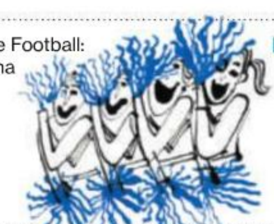
Asia-Pacific Economic Cooperation finance ministers meet in Kyoto

▶ **U.S. unemployment:** Surveyed economists expect the October rate to hold flat at 9.6 percent.

▶ **AIG earnings report:** The bailed-out insurance company raised $17.8 billion with the IPO of its AIA unit.

06

College Football: Alabama at LSU



▶ **Obama visits India:** The President begins his first state visit to India by attending a U.S.-India Business Council summit in Mumbai.



07



U.S. daylight savings time ends

ING New York City Marathon

▶ **Burmese elections:** The ruling military junta holds the nation's first elections in 20 years. The U.N. has questioned the fairness of plans for the vote.

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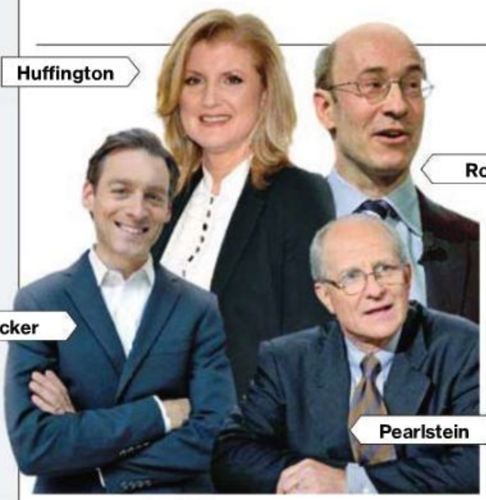
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Charlie Rose talks to

Jacob Hacker, Arianna Huffington, Steven Pearlstein, and Kenneth Rogoff



A roundtable on income inequality and its impact on the American middle class—and the elections

The central question of this political season is, what happened to the middle class? What happened to the American Dream?
***Huffington Post*'s Arianna Huffington:** Something went terribly wrong. Right now, two-thirds of Americans believe that their children are going to be worse off than they are. America without a middle class is a Third World country. And if we don't course-correct and take the danger of the crumbling middle class seriously, we are really going to become a country of extremes, with the rich behind gates protecting their kids from kidnapping and everybody else struggling to make a living.

Explain to me what the middle class actually is today?
Yale University's Jacob Hacker: Americans know that they want to be part of the middle class. It's an aspiration as much as it is an income category. One of the things that is striking when you start to look at the statistics is that most Americans really have experienced very similar developments over the last 30 years, because most of the economic gains have gone to a very small slice at the top. When you take into account income taxes and government benefits and private health insurance and pensions, roughly 40 percent of all household income gains over the last generation, from 1979 to 2007, went to the richest 1 percent of Americans. So it's not that strange to think that even someone who's making $200,000 a year would think of themselves as middle class in that context.

Ken, you've written about eight centuries of economic collapse. So what's the arc that led us to where we are now?
Harvard University's Kenneth Rogoff: Well, I think the biggest part of it is this process of globalization going on with China and India. Pour 2.5 billion people into the world labor market—and they're poorer and some of them are willing to work very hard—it's going to hit you no matter what your policies are. But there's certainly an overlay of policy which instead of making things better made things worse. It brought us the financial crisis and exacerbated income inequality.

Steve, you've said that it's no coincidence that polarization of income distribution in the U.S. goes hand-in-hand with a polarized political process. What's the impact?
***Washington Post*'s Steven Pearlstein:** As more and more of the income gets concentrated in the top, people at the top might use some of that money to essentially buy the political process, to buy politicians, to buy lawyers, to frustrate regulatory efforts, and essentially turn government into an instrument in which they can get yet more.

If you go back to the Progressive Era, that's what they were concerned with. The reason they wanted to bust the trusts was because the trusts would use their money to essentially use government as a club against everybody else.

Huffington: The anger that has been unleashed is really something that is threatening not just our economy but our democratic stability. It's very serious. That is really the by-product of that sense that the dice are loaded, that somehow we don't have a level playing field. And that is really what is at the heart of this demonizing, scapegoating, turning us against one another.

People are looking for someone to blame for the state of things.
Rogoff: I thought a signal moment in this was when President Obama gave a speech on Wall Street just before the financial regulation bill was passed. He said, "Stop lobbying us. We've got to do this. You've really got to stop lobbying us. You have to accept it."

He didn't say: If you don't, we're going to stop accepting your money. We're going to cut off the revolving door that puts many top officials who regulate you into the financial sector.

It really is a profound problem.

Members of the business community say the reason that they have problems with the Administration is that the President demonizes business.
Hacker: Well, that's not what Americans think. The Pew Research Center asked people who they think the government was helping a great deal in the wake of the economic crisis. And 53 percent said that Wall Street was being helped a great deal. Two percent thought that the middle class was being helped a great deal. There's a real sense of disconnect among Americans. They feel as if the lobbyists are swarming over Washington, getting what they want. And yet there's 10 percent unemployment. There's been a decade of no growth, 30 years of rising disparities. Ⓑ



Watch Charlie Rose on Bloomberg TV weeknights at 8 p.m. and 10 p.m.

[illegible] KRENT; MICHAEL MARSLAND/YALE UNIVERSITY; PAUL SMITH/FEATUREFLASH/POLARIS; ANDREW HARRER/BLOOMBERG; ALEX WONG/GETTY IMAGES



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A Funny Thing Happened On the Way to Basic Cable

▶ **Cable network TBS is courting a Web-savvy audience for Conan O'Brien's new show**

▶ **"By aligning with Conan, it gives us an identity that instantly equals comedy"**



FROM TOP: ROBERTO WESTBROOK/TBS; ART STREIBER/TBS

How do you reinvigorate a populist comedy uprising that's settled into a complacent lull? Try hiring a blimp, tricking it out with interactive Internet gadgets, and flying it across country. Or perhaps hire a man in a taco suit to dance in front of a live Web cam. Maybe even stuff a stunt car full of popcorn and fireworks and drive it off a cliff.

Conan O'Brien and his new bosses at the Atlanta-based cable network **TBS** have tried all those stunts—and more—in recent weeks as part of an all-out marketing push to reignite interest in O'Brien's imminent migration to one of the less-edgy networks on cable. The target of this marketing quirkfest is potential viewers, particularly those who frequent **Twitter**, **Facebook**, and **YouTube.**

Being the late-night headliner at TBS, the erstwhile "Superstation" that was long the purveyor of *I Love Lucy* reruns and the television home of the Atlanta Braves, is a bit of a comedown from O'Brien's former chair at **NBC**'s *The Tonight Show*, the top comedic venue on broadcast TV. That perch brought household-name status to the likes of Steve Allen, Johnny Carson, and Jay Leno—and steady profits to the coffers of the Peacock Network for decades. But in today's fragmented media market, comedians such as Jon Stewart and Stephen Colbert, who appear on **Viacom**'s Comedy Central, have shown that the big broadcast networks no longer have a lock on late-night eyeballs.

TBS, which according to *The Daily Beast* is paying O'Brien $10 million to $15 million annually, is betting it can get similar results from the red-headed comic's 11 p.m. nightly show, *Conan*, which makes its debut on Nov. 8. "Conan is arguably the biggest broadcast celebrity to come to cable," says Steve Koonin, president of **Time Warner**'s Turner Entertainment Networks, which include TNT and TBS. "You look at a lot of networks—they have good shows, but they don't mean something. I'm not talking ratings; I'm talking identity. By aligning with Conan, it gives us an identity that instantly equals comedy, which is what we're trying to be. We think Conan is one of the best brand enhancers in all of television."

O'Brien and longtime sidekick Andy Richter have been on TV hiatus since January when, amid lackluster ratings, NBC executives cut short O'Brien's brief tenure as *The Tonight Show*'s host. The nasty public parting, which cost NBC an exit package estimated to be worth roughly $45 million, touched off a frenzied public backlash. Along the way, O'Brien emerged as a folk hero for the social media set. **Google**'s YouTube exploded with clips of fellow comedians supporting O'Brien and mocking his predecessor-turned-successor and sometimes nemesis, Jay Leno. Fans marched in protest outside of NBC. They uploaded triumphant photos from their Conan love-ins on **Tumblr**. They pledged allegiance to "Team Coco" on Facebook. O'Brien grew a beard and kept in touch with the faithful on Twitter.

Now, some nine months later, TBS is attempting to revive the Team Coco fervor. Over the summer, TBS kicked things off with a series of 30-second TV spots featuring the chorus from the John Waite song *Missing You* and images of lovelorn fans coping with their bereavement in unusual ways—such as a despondent fellow spelling out "Conan" with the letters in his bowl of alphabet soup.

In late September, TBS unleashed the full campaign. During TBS's annual coverage of the **Major League Baseball** playoffs, the network provided aerial views of the games,

courtesy of a big, orange Conan-TBS-branded blimp. Online, fans could follow the blimp's movements, look at constantly updated photos, and interact with fellow O'Brien fans by "checking into" the blimp on location-based social network **Foursquare**. There was even a 24-hour Coco Cam on the Web streaming live video of Conan and his crew making odd preparations for the new show.

660
THOUSAND

Web users who viewed the 24-hour Coco Cam tracking Team O'Brien

The rollout was designed to maximize *Conan*'s visibility on the Web. So ads featuring the blimp—like the print ads in *Vanity Fair*, the photo shoot of O'Brien posing with a European barn owl, and the music video of O'Brien soaping up his desk in slow motion—were cross-posted on a handful of Conan-centric websites, including teamcoco.com, a Facebook page, and a YouTube channel. One reason for the Web focus: O'Brien's popularity with younger viewers. "Here's a guy, Conan, who is in his 40s who attracts audiences in their 20s and 30s, competing against guys in their 60s who attract audiences that are virtually the same age," says Koonin. "The audience should be the youngest in late night. That's what advertisers crave."

Since introducing its "Very Funny" tag line in 2004, TBS has grown into one of the top-rated channels on cable, thanks in large part to the network's acquisition and repackaging of proven comedy series, such as *Seinfeld*, *Everybody Loves Raymond*, *The Office*, and *Family Guy*. Despite the network's success, TBS is still largely perceived as an accidental destination—a place people stumble on while channel surfing, not a go-to place for original programming, says Robert Thompson, the director of the Bleier Center for Television and Popular Culture at Syracuse University.

Turner executives hope Conan's arrival could change that. "There may be some college students who will discover what number TBS is on their cable dial for the first time because they want to watch Conan," says Thompson. "Comedy Central has demonstrated that late night is no longer just the purview of the broadcast networks," he adds. "Late night is potentially a cash cow."

A recent study by *Advertising Age* estimated that in 2009, **CBS**'s *The Late Show with David Letterman* earned $271 million in ad revenue; NBC's *The Tonight Show* brought in $175.9 million; and **ABC**'s *Jimmy Kimmel Live!* earned $138.1 million. Time Warner Chairman Jeffrey Bewkes in August boasted that TBS was already getting ad rates for *Conan* on par with its late-night competitors.

O'Brien's move to cable sets up a potential showdown against Comedy Central's *The Daily Show with Jon Stewart* followed by *The Colbert Report*. So far this television season, according to Nielsen research, *The Daily Show* has averaged 1,948,000 total viewers. During the final, frenzied week of O'Brien's NBC run, *The Tonight Show* averaged 5.3 million viewers. So do TBS execs think O'Brien is going to trounce Stewart? "Conan is top of the class," says Koonin diplomatically. "We think his ratings will be extremely competitive with late night both on broadcast and cable." No potshots from the blimp just yet. —*Felix Gillette*

The bottom line *Cable network TBS is courting younger viewers on the Web for its new late-night show featuring Conan O'Brien.*

Conan's Competition

Among fans of late-night talk, a larger share of those who view the cable funnymen (and woman) are younger



LATE NIGHT SHOW	NETWORK	TOTAL VIEWERS	VIEWERS 18-49
The Tonight Show	NBC	3,739,000	1,270,000
The Late Show with David Letterman	CBS	3,592,000	1,209,000
Jimmy Kimmel Live!	ABC	1,676,000	697,000
The Daily Show	Comedy Central	1,948,000	1,162,000
The Colbert Report	Comedy Central	1,382,000	875,000
Chelsea Lately	E! Entertainment Television	911,000	613,000

DATA: NIELSEN DATA FOR SEPT. 20-OCT. 24, 2010





Test driving a crib in Nanjing



Retailing

In China's Ikea Stores, Loitering Is Encouraged

▸ By letting visitors linger, the chain hopes they'll buy as incomes rise

▸ "I'm still living in a dorm, but I want my future home to look like this"

Yang Shuqi paces the aisles of an **Ikea** store in Beijing, looking for a "small bed with toys." She's not planning to buy one—her grandson Beibei just needs to take a nap. Unfortunately on this Saturday afternoon, every bed in the 43,000-square-meter (463,000-square-foot) store is occupied, with some children and adults fast asleep under the covers. Managers at the Swedish furniture retailer don't mind. They figure that the more customers choose to relax in its Western-style showrooms or grab a cheap snack at the in-store restaurants, the more likely they'll be to make a purchase once their incomes catch up with their aspirations.

"The idea is that maybe if you've been visiting Ikea, eating meatballs, hot dogs, or ice cream for 10 years, then

IKEA: GETTY IMAGES (2); AP PHOTO (1); BLOOMBERG (1); CONAN: TBS; GETTY IMAGES (3); ABC (1); AP PHOTO (2)





Opening day of Ikea's Shenyang store in May



Visiting Ikea has become a weekend pastime for many Chinese



A weary shopper takes a break in Beijing

maybe you will consider Ikea when you get yourself a sofa," says Ian Duffy, the company's Asia-Pacific president.

Ikea plans to more than double the number of its stores on the mainland by 2015, to 18, on a bet that incomes in China will continue growing at a fast clip. (Per-capita gross domestic product has more than tripled in the past decade alone). The chain said last month it will add $300 million to the $1.2 billion already being spent by a developer it partly owns to incorporate stores into new malls. The world's largest home furnishings retailer also has three outlets in Hong Kong among more than 300 worldwide.

Market researcher Euromonitor International expects China's home-furnishings market to surge 17 percent this year, to $28 billion. "Government stimulus spending and favorable policies toward retailing and consumer lending have encouraged overall retail growth in China," says Alex Liu, a Euromonitor analyst in Shanghai. Ikea, which has been in China since 1998, doesn't break out sales for the country; Euromonitor figures the Swedish retailer has the biggest share of China's home-furnishings market, at about 7 percent.

Ikea's Scandinavian-design furniture and in-store cafeterias serving Western fare are big draws for up-and-coming Chinese. "I like the environment," says Zhang Xihua, a 62-year-old retired schoolteacher from Wenzhou, who makes it a point to drop in at an Ikea store in the northeastern section of Beijing when she visits her son. "It makes you feel like you're abroad."

China's real estate boom also is bringing customers to Ikea. Property sales in the first nine months of this year rose 15.9 percent from the year before, the nation's statistics bureau said on Oct. 15.

Even after years of record-breaking economic growth, however, China's per-capita gross national income ranked 120th by purchasing power last year, according to the World Bank. So, for now, there's a lot more looking than buying for many Ikea visitors. At the Beijing store, Xu Nan, a 22-year-old college student, had one of her friends snap a photo of her lounging on a black Vreta sofa that sells for 7,999 yuan ($1,197)–the equivalent of one-third of China's annual per-capita GDP. "I'm still living in a dorm, but I want my future home to look like this," she says.—*Michael Wei*

The bottom line *Ikea stores are popular with Chinese consumers, but many browse rather than buy. The chain, eager to build its brand, doesn't mind.*

Retailing

Big Chains Rediscover Urban Food Shoppers

▶ Wal-Mart and others aim to bring groceries to inner city dwellers

▶ "The beauty is there is a relative lack of competition in that space"

Wal-Mart Stores is gearing up to open small outlets next year in U.S. cities, where it hopes to sell a lot of groceries. Trouble is, at least a half-dozen others are also seeking accelerated growth in urban America. **CVS Caremark**, **Walgreen**, **Supervalu**, and **Family Dollar Stores** all are offering more fresh food at their urban outlets or opening small stores in neighborhoods with limited access to nutritious grub.

While selling food is a mature business, 23.5 million Americans live in underserved urban areas–a market potentially worth $100 billion a year, says Jim Hertel, managing partner with retail consultant Willard Bishop. "It's easy to go into a liquor or convenience store and find potato chips," he says. "But in terms of something you would feel good serving your family, not so much."

The big grocery store chains largely abandoned the cities in the 1970s and followed their customers to the suburbs. There they found abundant, cheap land and built superstores and parking lots large enough for 1,000 cars. Now they have saturated that market and are turning their attention back to urban neighborhoods that have long been served by mom-and-pop stores—or not at all.

About five years ago, Family Dollar began selling a limited selection of mostly packaged and frozen food in New York, Chicago, and Detroit. As the concept caught on, the company began carrying staples such as bread, eggs, and milk. "We have a bulkhead in many major urban areas, and we'll continue to build on [that]," Chief Operating Officer R. James Kelly said in October.

Now other retailers that traditionally haven't carried groceries are moving in. Pharmacy chain CVS Caremark is adding fruit, salads, sandwiches, and other prepared meals at a growing number of its city locations. The second-largest U.S. drugstore chain, behind Walgreen, plans this year to remodel about 300 urban stores to carry food items in Boston, New York, Washington, Detroit, and Philadelphia. Eventually one-fifth of its 7,000 stores could be reconfigured, CVS says.

While CVS is aiming at a cross-section of consumers, Save-A-Lot, a no-frills grocer owned by Supervalu, targets households with incomes below $45,000 in neighborhoods where supermarkets are scarce. The U.S. government is offering $400 million a year in loans and tax incentives to lure stores offering better quality food to these underserved areas by 2017, part of First Lady Michelle Obama's campaign to reduce childhood obesity.



Tax breaks lure some grocers to urban areas

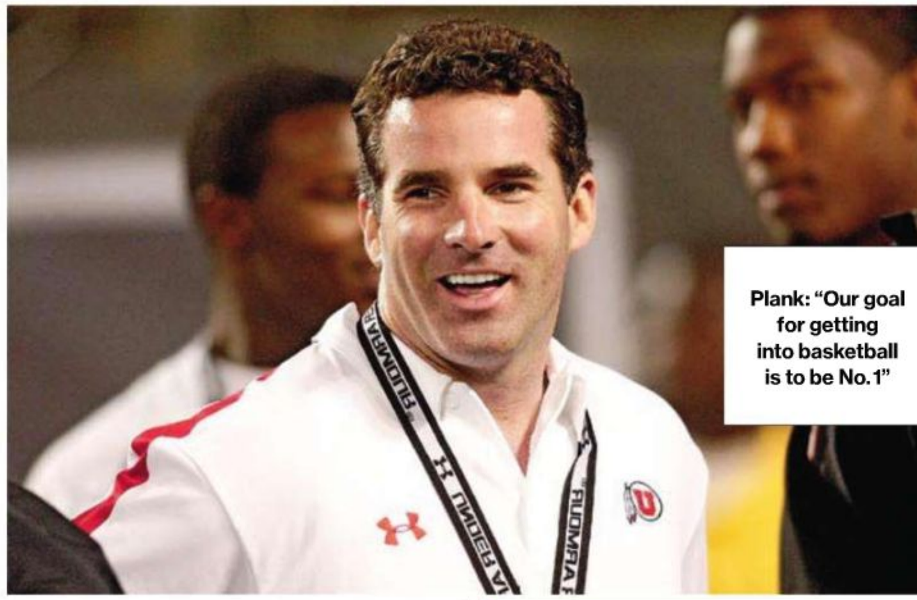
Save-A-Lot, which is seeking government aid, has about half of its 1,200 stores in urban areas, and the company plans to keep the ratio the same as it doubles its store count over the next five years. To undercut rivals on price by as much 40 percent, Save-A-Lot sells mostly house brands and carries fewer items than a full supermarket. "We target the value-seeking and income-challenged consumer," says CEO Bill Shaner. "The beauty is there is a relative lack of competition in that space."

Last year, Chicago Mayor Richard M. Daley asked Walgreen to help serve neighborhoods with no food stores in parts of South and West Chicago. The retailer has since opened 10 pilot stores, which carry about 750 more food items than traditional Walgreen stores, including frozen ground meat, chicken, fresh fruits, and vegetables. Sales have surged at these locations even though the company has done almost no marketing, says John Grant, who runs its "urban oasis" project. "That has come primarily from word of mouth and signage," he says.

The rush by dollar stores, pharmacies, and grocery chains into the urban food market means Wal-Mart will face entrenched players that know the terrain as it rolls out up to 40 smaller urban stores next year. "It's clear that in large cities, customers want to shop at Wal-Mart, and we are working hard to make access to our brand easier for them," says spokesman Steven Restivo.

The retailer also will have to contend with **Target**, which already operates stores selling food in U.S. cities and plans to start opening smaller locations of its own. And given Wal-Mart's big-box history, getting the merchandise mix right in small, urban stores may not come naturally, says Willard Bishop's Hertel. "Name alone won't get it done," he says. "It may get the consumer in the store one time, but the second trip will be the moment of truth." *—Carol Wolf, with Chris Burritt and Matthew Boyle*

The bottom line *Supermarket and drugstore chains are boosting their food offerings in underserved urban areas. Wal-Mart plans 30 smaller stores as well.*



Plank: "Our goal for getting into basketball is to be No. 1"

Sports Apparel

Under Armour's Daring Half-Court Shot

- ▶ The maker of upscale sports apparel moves into basketball shoes
- ▶ If the shoe fails, "critics will say [it] can't ever be a footwear company"

Under Armour Chief Executive Officer Kevin A. Plank beat the odds in college when he won a spot on the University of Maryland football team as a walk-on and eventually became one of its captains. His next challenge could make that feat look easy. Under Armour on Oct. 23 launched a basketball shoe line, called Micro G, to take on the longtime ruler of the court, **Nike**. It's all part of Plank's quest to make Under Armour, with $856 million in sales in 2009, "the biggest, baddest brand on the planet."

In the $2.5 billion U.S. market for basketball sneakers, Plank confronts more than just Nike's 95 percent share and the billions it spends on marketing. Sales of basketball shoes in the U.S. have slid for the past three years as fewer people play the sport, says SportsOneSource analyst Matt Powell. And Under Armour's earlier disappointments in cross-training and running shoes suggest its hoop dreams may be tough to realize.

If Plank harbors doubts about taking on Nike in its stronghold, he isn't showing it. "Our goal for getting into basket-

THIS PAGE, FROM TOP: J. MERIC; GETTY IMAGES



A spotlight on the ballot measures page 34 ▶

ball is to be No. 1," he says. "I'm 38. I've got a long time." As for Nike, he adds, "those guys are old."

Despite the trash talk and Baltimore-based Under Armour's fast growth (sales at its core apparel business have tripled in the past five years), Plank has had difficulty climbing the learning curve in sports footwear. In 2008, Under Armour spent big on a Super Bowl ad for a line of cross-training shoes–months before the shoes actually reached stores. Many shoppers had forgotten the ad by the time of the shoes' debut. Meanwhile, tepid sales of the line of running shoes it introduced in 2009 have led the company to allow retailers to discount them or simply send them back to clean out inventories. Under Armour holds a slim 1.1 percent of the athletic shoe market, says SportsOneSource.

Another failure in athletic shoes could hurt Under Armour's long-term prospects, says Nathan Brown, an Overland Park (Kan.)-based analyst for **Waddell & Reed**, the second-largest holder of the company's shares. "If the basketball shoe doesn't do well, there will be questions because now you'll have strike two and critics will say this company can't ever be a footwear company," Brown says. "Then the probability of that dream of eventually becoming an **Adidas** or Nike has to go down."

Plank says Under Armour has learned from its missteps. He's reached outside the company for expertise, hiring Eugene R. McCarthy, who previously ran Nike's Jordan brand, to be senior vice-president for footwear. McCarthy added Nike veterans Dave Dombrow as creative director and Charlie Brown as sourcing chief and moved two-thirds of the footwear unit's 90 staffers into new positions. He also is flushing unsold running and training shoes out of dealers' inventories and plans to introduce new shoe models next year.

The release of the Micro G, promoted by Brandon Jennings of the National Basketball Assn.'s Milwaukee Bucks, will be a less splashy affair than the botched cross-trainer debut, says Plank. There are no big ad buys. A small number of pairs have landed at such national retailers as **Foot Locker** and urban chains like Jimmy Jazz in New York to create pent-up demand that the previous shoes lacked. Prices for the lightweight Micro G will range from $80 to $110.

As Plank prepared for the Micro G launch, he told employees to start thinking of Under Armour as a footwear brand, not just an apparel maker. "I called our marketing team and said, 'Go through this building and find anything that says we are only an apparel brand and throw it away,'" Plank says. "We are Under Armour performance. We're going to walk it. We're going to talk it, and we're going to believe it."



Under Armour's Micro G Black Ice basketball shoe

Plank expanded Under Armour by identifying profitable market niches, such as its namesake undergarments that pull moisture away from athletes' skin, says Michael Baron, an analyst for New York-based **Baron Capital**, the largest holder of Under Armour shares. Getting into basketball shoes, however, is "a whole other level," Baron says.

One reason: Nike spent $2.4 billion on marketing in its last fiscal year, or almost three times Under Armour's annual sales and 20 times its marketing outlays. Perhaps that's why the Beaverton (Ore.) sports giant isn't exactly running scared. "While our main focus is on fulfilling our own potential, which is unlimited, we thrive on competition of any kind," says Nike spokesman Derek Kent when asked about Under Armour's foray into basketball. "We expect to further expand our leadership position." —*Matt Townsend*

The bottom line *After earlier flubs in athletic footwear, apparel maker Under Armour is introducing basketball shoes, a stronghold of sports leader Nike.*

Munitions

Misfires Aplenty at Cerberus' Gun Unit

▶ A bad economy and a combat rifle recall have hit Freedom Group

▶ "The unexpected firing of multiple rounds" could be dangerous

Cerberus Capital Management has sent in reinforcements to shore up its munitions company, **Freedom Group**. Yet that hasn't stopped the discouraging news from the Madison (N.C.)-based gun and ammunition manufacturer.

Since 2006, Cerberus, a New York-based buyout firm with assets valued at about $23 billion, has scooped up 13 firearm and ammo brands. These include well-known names such as Remington, Marlin, Bushmaster, DPMS/Panther Arms, and Barnes Bullets. Cerberus has combined these investments into Freedom Group. The company enjoyed a booming 2009 with sales of $848.7 million, making it the country's largest civilian arms maker.

A year ago, Cerberus filed with the Securities and Exchange Commission to take Freedom Group public. The gun play looked like it would pay off nicely. Since then, however, Freedom has suffered setbacks. The gun market slowed in 2010, and the initial public offering so far has not happened. In September, Freedom's chief executive officer, Theodore Torbeck, resigned abruptly without the company naming a permanent replacement.

Cerberus announced that Robert L. Nardelli, former CEO of **Chrysler** and **Home Depot**, would head Freedom Group while the arms maker searched for a long-term chief. ➡



A flaw in the recalled ACR can turn it into an automatic rifle

Nardelli, 62, had run Chrysler for Cerberus until 2009, when the carmaker filed for bankruptcy after one of the worst sales slumps in decades. He was ousted as CEO of Atlanta-based Home Depot in 2007 amid criticism of the company's lagging performance and his compensation.

In October, Freedom Group took two more public-relations hits. Bushmaster announced on Oct. 15 that it was voluntarily recalling its Adaptive Combat Rifle (ACR) because of a flaw that can turn the semiautomatic gun into a fully automatic that fires continuously when the trigger is pulled. "The unexpected firing of multiple rounds creates a potentially dangerous situation," the recall notice stated.

An outside spokesman for Freedom Group, Michael Fox, says the company isn't releasing the number of rifles affected. Freedom "will revisit the exact timing of the IPO following the naming of the new CEO," he adds. A Cerberus executive, who requested anonymity, says Freedom "has been hitting singles and doubles when we're looking for grand slams. That's why we sent in Bob Nardelli. That's what he does."

Introduced in January, the ACR is a military-style rifle intended for civilian and police customers. Bushmaster has been advertising the gun prominently on its website, calling it "the only rifle you need to master the infinite number of extreme scenarios you'll face in the worlds of law enforcement and personal defense." The basic version of the ACR comes with a 30-round ammunition magazine, a muzzle-flash suppressor, and a manufacturer's recommended retail price of $2,685.

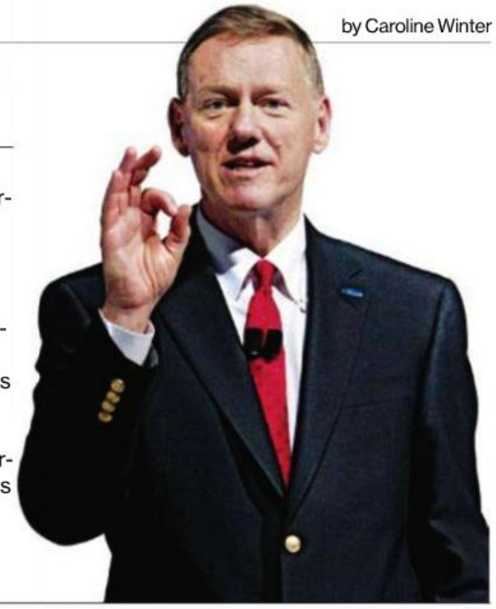
Meanwhile, CNBC in October aired an hour-long documentary, *Remington Under Fire*, that focused on long-standing allegations that the popular Remington Model 700 rifle for hunters and snipers has an unsafe trigger that can cause accidental discharges—accusations Remington has denied for years.

So far this year, according to a Sept. 17 filing with the SEC, Freedom Group has paid Cerberus fees totaling $1.1 million "for consulting services provided in connection with improving operations." B —*Paul M. Barrett*

***The bottom line** Cerberus investments in firearm and ammo brands have been hit by a tough economy, negative press, and a combat rifle recall.*

Briefs

by Caroline Winter



Ford Motor
Carmaker posts record profit

Ford Motor, the only major U.S. carmaker to avoid bankruptcy, reported record third-quarter net income of $1.69 billion and said it is paying down debt faster than planned. The result topped its previous third-quarter high of $1.13 billion, set in 1997. CEO Alan Mulally has revived Ford by improving quality and expanding offerings of the namesake brand to lure buyers with higher incomes. New models such as the Fiesta subcompact and Super Duty pickup trucks lifted Ford's share of U.S. light-vehicle sales to 15.1 percent for the quarter, up from 13 percent two years ago. Buyers of Ford's cars and trucks paid an average of $30,636 per model in September, a 10 percent increase from five years ago.

UBS
Swiss bank posts a surprise loss

$418 MILLION

Switzerland's UBS booked $1.2 billion in new investment inflows in the third quarter, the first net increase since 2008. Despite the improvement at the wealth management unit, UBS still reported a pretax third-quarter loss of $418 million because of a slump in trading at its investment bank. Clients began defecting two years ago as UBS piled up record losses and became engulfed in a U.S. investigation over customer tax evasion. The U.S. Justice Dept. on Oct. 22 dismissed its case against the bank.

PayPal
Unveils new smartphone services

PayPal, the online-payment processor owned by eBay, has introduced a mobile version of its checkout software. The company is racing Visa and MasterCard to capitalize on surging smartphone use and continued growth in mobile commerce, which analysts say will reach $119 billion by 2015. PayPal has about 10 percent of the online payments market. Facebook has endorsed the new software, saying it will use it on its site as well as to pay developers.

JetBlue, Alaska Air, and AirTran
Adding jets and flights

Analysts and investors are concerned that JetBlue Airways, Alaska Air, and AirTran will imperil the industry's nascent recovery with plans to add jets and flights. New York-based JetBlue intends to expand its fleet by nine jets next year after boosting capacity by roughly 10 percent this quarter. Alaska will increase capacity by 9 percent, and AirTran may expand by 4 percent as it prepares to be acquired by Southwest Airlines.



Mail.ru
Facebook-backer readies for IPO

Mail.ru Group, a Russian company that owns stakes in three closely held U.S. Internet properties, has drawn orders for all the stock on sale at its upcoming $876 million initial public offering in London, say sources with knowledge of the talks. Mail.ru's holdings in Facebook, Zynga Game Network, and Groupon may be worth a combined $900 million, figures Goldman Sachs, which is among the banks arranging the sale. A final price for the stock is expected to be set during the week of Nov. 8. Mail.ru's owners, among them Russian billionaire Alisher Usmanov and South African media company Naspers, may reap as much as $792 million from selling their stakes.

On the Move

Banorte Former Mexico Central Bank Governor Guillermo Ortiz appointed chairman • **Office Depot** Chairman and CEO Steve Odland steps down • **Morgan Stanley** Ex-Caterpillar CEO James Owens named to board

FROM TOP: J. SCOTT APPLEWHITE/AP PHOTO; NEWSCOM; JEFF GRITCHEN/ZUMA PRESS



3 subsidiaries
5 expansion plans
2 strategic options
One Credit Suisse
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He has an **$8 million** war chest advantage



On the stump, the candidate doesn't mention his Bush jobs

Business Loves Rob Portman, And He's Not Paying a Price

▶ **Never mind his insider status: The Senate candidate has run successfully on job creation**

▶ **"Mr. Portman has a lot of IOUs from folks he helped when he was trade czar"**

On a warm October Friday in downtown Cleveland, a small crowd of protestors chanted "hey, hey, ho, ho, Wall Street values have got to go." A man hoisted a homemade sign that read: "Corporate America ♥ Rob Portman."

Although the ♥ was meant as a dig against the Republican candidate for the U.S. Senate, the love affair doesn't seem to bother Ohio voters very much. Most polls show the former six-term congressman from Cincinnati with a commanding lead over Democrat Lee Fisher, the state's lieutenant governor.

A landslide win by Portman on Nov. 2 would defy logic in this anti-Establishment year. The former U.S. Trade Representative embodies everything the Tea Party and its offshoots are not: a polished Washington insider reaching the next rung in a political career that began, and some predict may end, at the White House. Responsible for one of the biggest trade deals since Nafta, he's running in a state that has lost more than 100,000 jobs to foreign competition since 2004. And he's benefited from donations from corporate interests that have helped him raise more than $14 million.

The proven dealmaker is poised to return to D.C. with bipartisan ties that could make him a force right off

Portman is leading because early on he made his campaign all about job creation, depriving Fisher, who oversees Ohio's economic development, of ownership of the issue voters say

PHOTOGRAPHS BY VANESSA VICK FOR BLOOMBERG BUSINESSWEEK

Politics&Policy



Corporate cash and Obama's flagging popularity are Portman assets

they care about the most. Portman's $8 million advantage in campaign cash doesn't hurt, either. "Mr. Portman has a lot of IOUs from folks he helped when he was trade czar," says Tim Burga, chief of staff for the Ohio chapter of the AFL-CIO. "Money matters."

Portman is poised to return to Washington as a proven dealmaker with close ties to lawmakers in both parties. "He'll play a prime role in the U.S. Senate from day one," says Gene Beaupré, a political science professor at Xavier University in Cincinnati. "Where he goes from there is just a matter of things lining up correctly," he says. Portman, who also served as director of the Office of Management and Budget, could play the kingpin in negotiations over trade deals and in any talks to cut spending or raise taxes to trim the budget deficit. Obama is expected to try to find common ground with Republicans on both those issues.

U.S. companies are lining up behind Portman. He has raised more than $1.7 million from corporate political action committees alone, according to the Center for Responsive Politics. He is the top recipient of contributions from the insurance industry, with donations nearing $575,000, and ranks first in money from commercial banks, with more than $220,000, according to the same data. He raised an additional $697,000 from securities and investment firms and more than $1 million from lawyers and lobbyists.

The Portman Portfolio

Rob Portman, a former U.S. Trade Representative and budget director under President George W. Bush, has raised $14 million for his Senate campaign, much of it from corporate executives.

NAME	COMPANY	$ TO CANDIDATE	$ TO CANDIDATE PAC
Robert Castellini	CEO, **Cincinnati Reds**	4,800	25,400
John Thain	Chairman and CEO, **CIT Group**	0	10,000
Carl Lindner	Chairman, **American Financial Group**	4,800	0
Scott Farmer	CEO, **Cintas**	4,800	25,000
Thomas Williams	President, **North American Properties**	4,800	25,000
Mark Thresher	Executive Vice-President, **Nationwide Insurance**	4,800	1,000
A.G. Lafley	Former Chairman and CEO, **Procter & Gamble**	2,000	10,000
Walt Bettinger	CEO, **Charles Schwab**	4,800	30,400
Thomas F. Farrell	Chairman and CEO, **Dominion Resources**	2,400	7,500
William Johnson	CEO, **H.J. Heinz**	0	15,200

DATA: CENTER FOR RESPONSIVE POLITICS AS OF OCT. 25

His single biggest donor is Cincinnati-based American Financial Group, which owns a number of insurance and investment companies. The firm's executives have given Portman almost $125,000. Chairman Carl H. Lindner, a prominent Republican donor, and his son Carl H. Lindner III, the company's co-chief executive officer, each gave Portman's campaign the maximum $4,800 donation. Other CEO supporters include John Thain of CIT Group; Walter W. Bettinger II of Charles Schwab; and William Johnson of H.J. Heinz.

Portman, 54, was born and raised in Cincinnati. His father started Portman Equipment, a forklift dealership, with five workers. The company now employs 350 people in four states, according to its website. After earning an undergraduate degree from Dartmouth College and a law degree from the University of Michigan (don't tell Ohio State fans), Portman practiced international trade law at Patton Boggs, a Washington (D.C.)-based law firm with strong political connections. In 1989 he took a job as associate White House counsel under President George H.W. Bush and later served as the director of the Office of Legislative Affairs before making a run for Congress.

During 12 years in the House, Portman was a pro-business moderate, authoring legislation to increase contribution limits on 401(k) plans and to expand pensions offered by small businesses. A member of the tax-writing Ways and Means Committee, he helped pass the Taxpayer Bill of Rights and shortened the window on long-term capital gains from 18 months to 12 months.

A Bush family favorite, Portman served as trade representative, then budget director under President George W. Bush. He doesn't highlight that part of his résumé in stump speeches, though he's still benefiting from his Bush family ties. American Crossroads, a group organized with the help of former Bush political adviser Karl Rove and financed by many of the President's former donors, has



OPPOSITE PAGE: JO YONG-HAK/AP PHOTO-POOL

Financial Rescue

Living Nicely Off the Crumbs of TARP

Big banks weren't the only ones to benefit from the financial bailout. The $700 billion program relies on private companies for services ranging from auditing to paper shredding. Some contractors reaped millions for their work. All told, the government has 96 agreements with vendors worth $436.7 million, says the congressional overseer for the Troubled Asset Relief Program. The largest amounts went to home-financing giants Fannie Mae and Freddie Mac to administer and monitor Treasury's mortgage modification program. Treasury signed 35 contracts for legal services. Cadwalader, Wickersham & Taft got the most at $19 million. —*Robert Schmidt*

Fannie Mae	Freddie Mac	Bank of New York Mellon	Pricewaterhouse Coopers	Alliance-Bernstein	Cadwalader, Wickersham & Taft
$111.3 MILLION	$79.3 MILLION	$23.8 MILLION	$23.5 MILLION	$21.2 MILLION	$19 MILLION
▶ for administering Treasury's mortgage modification program	▶ for making sure loan servicers comply with the program	▶ for acting as the custodian bank for the securities acquired by TARP	▶ mostly for creating the bailout program's internal controls	▶ for asset management services related to TARP investments	▶ for legal services related to the auto bailout

DATA: TREASURY DEPT.

spent more than $820,000 on Portman's race.

Portman also glosses over his role in marshalling votes for the Central America Free Trade Agreement. "Trade means jobs," he told business leaders at an event in Columbus, adding that Ohio has boosted exports for the last eight years and currently ranks seventh among the exporting states.

His opponents point out that more than 110,000 Ohioans have lost their jobs as the result of trade since 2004, according to the Ohio Jobs & Family Services Dept. Since 2000 the state has lost 400,000 manufacturing jobs, according to data compiled by Bloomberg. "How are people migrating to Portman?" asks Willie Holowecky, 45, a unionized state probation officer. "He worked for Bush, who caused this mess." Obama's flagging popularity may be helping Portman. Or it may be that Portman stresses jobs more than anything else, and that's the issue that even Democratic loyalists say Obama hasn't emphasized enough. —*Patrick O'Connor and Lisa Lerer*

The bottom line *GOP Senate hopeful Rob Portman, a free-trade advocate and Bush insider, is leading in Ohio polls in this anti-Establishment year.*

U.S.-China

Fixing the Global Trade System by the Numbers



▶ Obama and Geithner need China's support on numerical trade targets

▶ U.S. negotiating clout is the weakest "it's been in a very long time"

As finance ministers and central bankers dispersed after posing for a Group of 20 "class photo" on Oct. 22 in South Korea, Timothy Geithner made a beeline for People's Bank of China Governor Zhou Xiaochuan. It was a friendly overture from the U.S. Treasury Secretary—and suggestive of Beijing's current leverage in U.S.-China relations. "The U.S.," says David Rothkopf, a former Clinton Administration trade official who now heads Garten Rothkopf, a consulting firm, "is in the weakest position in terms of leading international negotiations that it's been in a very long time."

Just how much pull President Barack Obama has with Beijing may become clear on Nov. 11 and 12, when the G-20 leaders meet in Seoul to consider a U.S. proposal to limit current-account (the broadest measure of trade) surpluses and deficits to about 4 percent of a country's gross domestic product. In the recent G-20 meeting, finance ministers endorsed a vague statement that trade imbalances should be kept at "sustainable levels." The focus on trade targets is an indirect way of averting a global currency brawl. Emerging markets from Brazil to South Korea hope to protect exports by restraining their exchange rates, as the U.S. dollar declines and the yuan remains undervalued by many measures.

Zhou and Chinese Finance Minister Xie Xuren haven't yet backed numerical targets, though they have resisted pressure to let the Chinese currency appreciate. Will Obama get his

Will Nintendo's 3DS win back core players? page 39 ▶



way in Seoul? Some Chinese financial experts say yes. "China should not be afraid of numerical targets for reducing its trade surplus," Li Daokui, an adviser to the People's Bank of China, told the *Financial Times* on Oct. 27. "China is well positioned politically and economically to make this argument." That meshes with an Oct. 9 pledge in Washington by deputy governor Yi Gang for China to cut its surplus below 4 percent of GDP in the next three to five years.

$284.1 BILLION

China's 2009 current-account surplus, a reflection of its export might

Geithner hasn't yet been able to get G-20 partners to commit to a 4 percent target, thanks to objections from Japan and Germany, both surplus countries. (China's surplus is about 5 percent of GDP, while the U.S. deficit is about 3.2 percent.) Even so, Geithner said in a Bloomberg TV interview that 4 percent "will become the benchmark for the future." It's worth recalling, though, that a similar effort overseen by the International Monetary Fund in 2006 failed.

Obama could use a win. Elections on Nov. 2 are expected to hand control of at least one house of Congress to the Republicans. The following day, the Fed may resume buying U.S. assets to spark economic growth. By dramatically expanding the U.S. money supply, the Fed could undermine the dollar—and undercut Obama's sermons against currency meddling.

Also, numerical targets may not be all that effective. The G-20 only has peer pressure to enforce its decisions, and its track record has been patchy of late. True, countries united to bail out banks and craft stimulus plans to avert a global depression. Now, G-20 members are divided on topics like reversing budget deficits and taxing financial speculation. Pledges not to engage in protectionism have been ignored about 400 times in two years, according to Global Trade Alert, an independent monitor. Such are the current realities of global trade.
—Simon Kennedy, David J. Lynch, and Rebecca Christie

The bottom line *The U.S.'s leverage in international negotiations is slipping, just as Obama is pushing for numerical targets for trade imbalances.*

Oil Royalties

Mopping Up at the Interior Dept.

▶ The head of its new unit says token fines are a thing of the past

▶ A message to industry: "If you do cut corners, it's going to cost you"

For energy companies, the scariest thing to wash up in the wake of BP's massive oil spill in the Gulf of Mexico may be a new federal agency, the Office of Natural Resources Revenue, whose sole purpose is to collect royalties. On Oct. 1 the bureau became the first of three new regulators to emerge from the wreckage of the Minerals Management Service, or MMS, the Interior Dept. unit that was reorganized in May amid accusations that its coziness with industry bordered on corruption.

Gregory J. Gould, the new agency's head, says he is putting in place sophisticated tools to ensure the government will get every dime it's owed. Companies will be tracked by sleuthing computers and watched by a growing number of auditors. The biggest change is what will happen when industry runs afoul of the rules: The office will have authority to levy penalties reaching into the hundreds of millions of dollars, rather than the token fines of the past. "We're sending a message to the industry that if you do cut corners, it's going to cost you," Gould says. "You could quickly take care of the federal deficit if you use the maximum."



Gould

That kind of talk—however tongue-in-cheek—is being interpreted as a warning shot by companies. "We are worried about an adversarial process," says Allison Nyholm, a royalty expert at the American Petroleum Institute. "There is huge discretion in the fines. That is where the rub is going to occur."

The new office is Obama's solution for fixing a dysfunctional royalty collection system. One MMS manager was caught buying cocaine from employees, and whistleblowers claimed companies were being allowed to skim millions off royalty bills. The number of auditors had fallen by 30 percent under President George W. Bush, whose priority was boosting domestic energy production. Gould, 49, a mild-mannered geologist and 29-year Interior veteran, was tapped to mop up in 2008, starting with a restructuring of MMS's Denver office, the scandal's epicenter. As oil gushed from the BP spill this spring, Interior Secretary Ken Salazar finally pulled the plug on MMS, which also regulated offshore drilling and where Gould had once served as chief of the environmental division. Now Gould's job is to chase the money. He is charged with collecting $10 billion a year in royalties from on- and offshore oil and gas leases, the U.S.'s second-biggest source of revenue after the tax code. "That whole environment" that came to light in 2008 is "100 percent gone," Gould says.

Maybe. Changing an agency's culture is one thing; getting companies to pay what the government thinks they owe on thousands of leases is another. Energy royalties work much the way income taxes do: Companies self-report what they owe, and like taxpayers, many cheat, audits show. The new agency will get 19 more auditors this year, bringing the total to 164. The new audit review system uses a risk-based algorithm, modeled in part on one used by the IRS, to identify companies most likely to cheat. Previously, only the biggest companies faced the prospect of an audit, Gould says. "By going after only the big companies, small ones knew they could cut corners," he says. "This takes that away." *—Michael Riley*

The bottom line *The head of the new royalty-collecting Interior Dept. unit plans to move aggressively against oil companies.*

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What's on the Ballot?

Voters heading to the polls on Nov. 2 will decide whether to legalize recreational marijuana use in California, impose an income tax on the wealthy in Washington state, or slash sales taxes in Massachusetts. Taxation is the overriding theme of 159 ballot measures in 36 states as governors and legislators struggle with massive budget deficits and cash-strapped taxpayers seek relief. Some of the proposals reflect an anti-government mood: Voters in several states will decide whether to defy the mandatory insurance

THE BALLOT ISSUES

Taxes

STATES INVOLVED

Massachusetts
Washington

BACKSTORY

Two Coasts, Two Tax Questions

Voters will weigh a cut in the Bay State sales tax to 3 percent from 6.25 percent as of Jan. 1. Governor Deval Patrick and his Republican opponent, Charlie Baker, both oppose the measure. The plan would lower revenue by more than $2 billion a year and force the state to cut spending. A former Libertarian Party gubernatorial and U.S. Senate candidate chairs the group behind the proposal.
In Washington, which has no income tax, voters will consider a new levy on individuals earning more than $200,000 and couples earning more than $400,000. The revenue would offset a cut in state property taxes.

Bottom Line *The Washington initiative pits Bill Gates Sr., father of Microsoft's co-founder, against Microsoft over taxing high earners (Gates is in favor).*

Health Care

STATES INVOLVED

Arizona
Colorado
Oklahoma

BACKSTORY

Voters Weigh the Insurance Mandate

Many states are suing the federal government over the health reform law's mandate that everyone must have health insurance. A small number are giving their voters a chance to register their views more directly—with ballot proposals making the requirement unconstitutional. The proposal would amend state constitutions in Arizona, Colorado, and Oklahoma by declaring that companies and individuals cannot be required to have health insurance. A similar measure won overwhelmingly in Missouri in August.

Bottom Line *The measures are largely symbolic because the federal statute overrides state laws. The question likely will be decided by the Supreme Court.*

Environment

STATES INVOLVED

California

BACKSTORY

Postpone Emissions Law?

A California proposition would suspend a state law requiring reduced greenhouse gas emissions until the state's unemployment rate drops below 5.5 percent for a year. The rate was 12.4 percent in September. Proposition 23, backed by oil companies, would also put renewable and clean fuel requirements on hold. Both gubernatorial candidates, Republican Meg Whitman and Democrat Jerry Brown, oppose the initiative. A USC/*Los Angeles Times* poll conducted Oct. 13-20 found 48 percent of likely voters opposed putting the new emissions standards on hold, while 32 percent favored suspending them until the economy improves.

Bottom Line *The measure could be a leading indicator of the success or failure of energy legislation in Washington next year.*

Redistricting

STATES INVOLVED

California
Florida

BACKSTORY

Drawing the Line on Redistricting

California voters will decide whether to strip the legislature of power to reshape the state's 53 congressional districts and shift it to a redistricting commission formed in 2008 by a previous ballot measure. Separately, voters can elect to eliminate the 2008 commission altogether and return map-drawing, which happens every 10 years, to lawmakers. In Florida, voters will consider amending the state constitution to ban lawmakers from drawing congressional and state legislative districts to favor or impede a political party or incumbent politician.

Bottom Line *Population growth means Florida likely will gain two House seats, forcing existing districts to shift. And as California's population moves inland, a redistricting commission could shift the balance of power.*



THE ORANGE COUNTY REGISTER/ZUMA PRESS (2); GETTY IMAGES (4); ZUMA PRESS (2); SACRAMENTO BEE/ZUMA PRESS (1); AP PHOTO (3)

159 Total number of ballot propositions in 36 states

- **113** Measures placed on ballots by state legislatures
- **3** Measures asking voters whether to call a state constitutional convention
- **43** Measures placed on ballots by citizen petitions

requirement in President Barack Obama's new health-care law or take authority away from lawmakers to draw political boundaries. This year's measures number slightly more than the 153 propositions in 2008 and less than the 204 in 2006, according to the Initiative & Referendum Institute at the University of Southern California. Oklahoma leads the pack with 11 propositions, followed by Louisiana and Arizona, with 10 each. —*Alison Vekshin*

Civil Rights	Legalizing Marijuana	Union Elections	Budget Reform
Arizona	Arizona	Arizona	California
	California	South Carolina	Colorado
	Oregon	South Dakota	Oklahoma
	South Dakota	Utah	Virginia
			South Carolina

Ban Affirmative Action?

Voters will consider whether to prohibit the state government from discriminating for or against individuals based on race, sex, or ethnicity in state contracting, employment, and education. Proponents, among them longtime affirmative-action foe Ward Connerly, say the ballot measure will ban preferential treatment for minorities and women, which he says is reverse discrimination. Opponents argue that Arizona and federal law already bar discrimination on the basis of race or gender and that the proposal could endanger programs aimed at preventing violence against women or helping keep Native Americans in college who were admitted on merit, since those funds are targeted to specific groups.

***Bottom Line** Voters in California, Nebraska, Washington, and Michigan have approved a similar ballot measure; Colorado voters rejected one.*

Marijuana Creeps Toward Acceptance

Californians will vote on whether to allow anyone age 21 or older to have, grow, and transport marijuana for personal use. The U.S. Justice Dept. will "vigorously" enforce federal law banning marijuana possession even if it's allowed under state law, Attorney General Eric Holder said in an Oct. 13 letter to former drug enforcement officials. Arizona, Oregon, and South Dakota voters will decide whether to allow medical marijuana use or to extend existing laws.

***Bottom Line** A Public Policy Institute of California poll conducted on Oct. 10-17 found 49 percent of likely voters oppose the measure, while 44 percent support it.*

Secret Ballots Or Card Checks

Arizona, South Carolina, South Dakota, and Utah voters will consider state constitutional amendments to preserve secret ballots for union elections. Unions want to give workers the choice to bypass formal ballots, arguing that they give companies time to block organizing efforts with lengthy, intimidating campaigns. Instead, labor favors federal legislation that would allow a union if a majority of employees sign cards in favor. The state propositions are a reaction to the "card-check" measure, says Jonathan Johnson III, president of Overstock.com and a lead advocate for the Utah measure. Workers should be able to "cast an unmolested vote of conscience" without union pressure, he says.

***Bottom Line** Business groups hope the proposals, if approved, will influence U.S. senators to vote against card-check legislation.*

Fiscal Reforms Could Limit Spending

Colorado voters will consider amending their constitution to ban state borrowing as of 2011. If approved, Colorado would be the only state prohibited from issuing bonds to fund infrastructure projects, according to the National Conference of State Legislatures. The measure would also impose new borrowing limits on all local governments. California voters will decide whether its legislature can adopt a spending plan with a majority instead of the current two-thirds vote, a requirement that contributed to a record 100-day delay in approval of a budget this year. Oklahoma, South Carolina, and Virginia voters will consider proposals to boost rainy-day funds for state emergencies.

***Bottom Line** The Colorado proposal will test how concerned voters are about the amount of debt their state is carrying and the taxes spent servicing that debt.*



Pennsylvania

Arizona's Proposition 109 would make hunting, fishing, and harvesting wildlife a constitutional right

California

Colorado: Anti-tax measures could prevent the state from building schools and roads

Arizona



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Contents ▶ The credit-card technology that missed America 38 ▶ Nintendo takes aim at hard-core gamers 39 ▶ How to catch a car thief—or a few thousand car thieves 40 ▶ A Microsoft executive's parting shot 42 ▶ MySpace's redesign 42 ▶ Using games to change behavior 44 ● Edited by James Aley

A Former No-Name From Taiwan Builds a Global Brand

▶ **HTC is the No. 1 maker of Android handsets, the one segment growing faster than iPhones**

▶ **New phones will feature more content, which "has been a soft spot for Android products"**



DANIEL ACKER/BLOOMBERG

The vodka and whiskey flowed freely in a Taipei exhibition hall the size of an airplane hangar on Oct. 7. A six-piece cover band entertained guests with Queen's *We Will Rock You* and Engelbert Humperdinck's *Quando, Quando, Quando*. The occasion: Taiwanese smartphone maker **HTC** was launching a line of handsets using **Google**'s Android operating system. HTC, a brand virtually unknown in the U.S. two years ago, is the market leader in Android phones—the one segment of the market that's growing faster than **Apple**'s iPhone. Before the music started, executives from wireless carriers and other partner companies took the stage to praise HTC's chief executive officer, Peter Chou. "The true inventor of the smartphone is Peter Chou and his team," said Yves Maitre, a senior vice-president at French operator **Orange**. "He is the one."

HTC's stock has jumped 94 percent this year, and with a market cap of 552 billion Taiwan dollars ($18 billion) the company is now the third-most-valuable Taiwanese technology company after chipmaker **Taiwan Semiconductor** and contract manufacturer **Hon Hai Precision Industry,** better known as Foxconn. HTC launched the first Android smartphone in 2008—the T-Mobile G1—and has a 39 percent share of that market globally. Thanks to the success with Android, which just passed Apple's iOS as the fastest-growing mobile platform in the world, analysts expect sales to soar 78 percent this year, according to data compiled by Bloomberg. That's far better than rivals Apple, **Nokia**, **Research In Motion**, and **Samsung Electronics**.

Chou is looking for ways to extend his Android lead. Drew Bamford, HTC's director of user experience, says he plans to make Android phones better able to access video, music, and other content. That's been "a soft spot with Android products," he says. HTC is teaming up with U.S. e-commerce site **Kobo** to sell e-books and hopes to sign deals with retailers such as **Amazon.com** and **Barnes & Noble**. There's also an expected launch by early next year of an Android-powered tablet PC to compete with the iPad, something Chou and others at HTC won't discuss.

HTC is an unlikely Android leader. When the company got its start in 1997, it manufactured personal digital assistants for Compaq. HTC followed the tried-and-true Taiwanese outsourcing formula of designing and manufacturing gadgets for other companies without a brand name of its own. Chou got his first big break in 2002 when **Microsoft** awarded HTC a contract to make smartphones, and the manufacturer quickly became the world's top producer of Windows phones. It set up its U.S. headquarters in Bellevue, Wash., to be close to Microsoft's home office.

Even as the Microsoft business was growing, Chou says he worried that a brandless HTC would forever remain a low-margin manufacturer of commodity products. "We were doing pretty well, we were making a lot of profit," he says. "But we were

Technology



Training lawyers to fight foreclosures page 48 ▶

78%

HTC's expected sales increase over 2009, according to Bloomberg data

mostly minor partners" for telecom operators that bought and resold HTC phones. In 2007, the year Apple introduced the iPhone and set the smartphone market on fire, Chou decided to move away from the anonymous contract-manufacturing business. Last year, HTC spent $100 million on a fourth-quarter marketing blitz, and Chou says he'll spend up to $400 million this year. The company is now the world's fourth-largest smartphone manufacturer after Nokia, RIM, and Apple, according to IDC.

HTC's rise to the top tier of handset makers has given it more clout with partners—hence the accolades at the October launch event. Chou says wireless operators are more willing than before to work with HTC on technology and marketing plans. Operators profess admiration for Chou's hands-on approach. "He breathes his business," says Mark Liversidge, chief marketing officer at Hong Kong cellular operator **CSL**.

HTC's relationship with Microsoft, which is struggling to stay relevant in smartphones, is also changing. "We are a major partner, not a junior partner," Chou says. He first saw the design concept of Microsoft's just-introduced mobile system, Windows Phone 7, a year and a half ago. "I told them they are going in the right direction," he says. On Oct. 11, Microsoft and HTC unveiled five handsets using Windows Phone 7. Although Microsoft's fortunes in mobile software have fallen (it's now the No. 5 player), Chou and others at HTC argue there are customers out there who do want what Windows Phone 7 has to offer. "Our commitment to Windows is unwavering," says John Wang, HTC's chief marketing officer. HTC's new Windows Phone 7 handsets allow Microsoft users to connect with their Xbox Live games and Zune music, and some businesses want easy access to Office applications such as Word and Excel.

Analysts point out that for HTC there's little downside to giving Microsoft another shot. Microsoft plans to spend big on marketing Windows Phone 7, which means the Taiwanese company won't have to worry about getting the word out. HTC "should benefit the most from Windows Phone 7's kickoff," a team of Macquarie Securities analysts led by Daniel Chang wrote in an Oct. 6 report.

The main events, though, are HTC's Android devices—and keeping up the momentum against the iPhone. Chou is now focusing on expanding sales in the U.S. and on making inroads into mainland China. The HTC team, he brags, is very global. "More than half my direct reports are non-Taiwanese," he says. E-mail and documents have been in English "from day one," says Chou. "We just want to come up with our own innovations, our own flavor." And what about the competition from his most formidable rival, Apple? "HTC is HTC," he says impatiently. "I don't care about the iPhone. I don't even look at it." —*Bruce Einhorn, with Olga Kharif and Tim Culpan*

The bottom line *HTC, once unknown in the U.S., has become the top handset maker in the Android market, a segment that's growing faster than Apple's iPhone.*

Consumer Finance

Your Credit Card Is Not Accepted Here



▶ **U.S. issuers are reluctant to adopt a technology widely used abroad**

▶ **"We're hoping that what we've started is the beginning of a trend"**

The eruption of Iceland's Eyjafjallajökull volcano introduced Jim Burke to the difficulties millions of Americans face when they try to use their credit cards abroad.

Burke stood in line for more than seven hours at an Amsterdam train station in April as he sought passage to Belgium. He watched European travelers, also grounded by the eruption, buy tickets at automated kiosks that accepted microchip-embedded credit cards. Burke's **Bank of America**-issued Visa card, with the standard magnetic stripe on the back, was useless. When the 64-year-old retired economist from Bandon, Ore., returned home, he called Bank of America to ask whether he could get a chip card. The answer disappointed him: "They have basically said, 'Sorry, but you're out of luck.'"

Almost 10 million U.S. cardholders experienced credit-card acceptance problems abroad in 2008, costing banks $447 million in lost revenue, according to a study released last year by Boston-based research firm Aite Group. The problem: The U.S. is one of the few developed countries that has not adopted the EMV standard. The standard is managed and maintained by **EMVCo**, which was formed in 1999 by **Europay**, **MasterCard**, and **Visa**. One of the most recent converts to the technology is Canada, where merchants face a March deadline to have the requisite hardware in place. As of September, there were 1.1 billion EMV cards in circulation worldwide, according to Otley (England)-based EMVCo.

EMV-chip cards are less prone to fraud. The magnetic stripe on regular cards holds unencrypted data that remain static from one transaction to the next. An EMV card exchanges data with the card reader, producing a digital signature unique to each transaction. "There is no way that you can actually clone the EMV card," says Jack Jania, general manager for secure transactions at the North American offices of **Gemalto**, the French company that is the world's largest smart-card maker. "Every one has its own unique key. Without it you can't run the cryptographic algorithms that align with your particular account."

Credit-card issuers and merchants in the U.S. haven't embraced EMV in part because the cards are more expensive than their magnetic-stripe counterparts and the cost may exceed any savings from a reduction in fraud, says David Robertson, publisher of *The Nilson Report*, an industry newsletter. U.S. banks that issue Visa and MasterCard credit cards wrote off about $900 million in fraudulent charges last year, representing less than one-tenth of 1 percent

NATHANIEL WELCH; ILLUSTRATION BY TOPOS GRAPHICS

of total card spending. The issuers are also reluctant because EMV may soon be leapfrogged by other technologies.

The first financial institution to switch to EMV in the U.S. was the U.N. Federal Credit Union, which sent 5,000 cards to its most affluent members on Oct. 18. "It's going to improve acceptance outside the U.S. and also combat fraud," says Card Services Manager Merrill Halpern. The credit union has about 90,000 members, many of them diplomats who travel frequently. Says Halpern: "We're hoping that what we started is the beginning of a trend." *—Peter Eichenbaum and Nishad Majmudar*

The bottom line *U.S. issuers have shunned chip-embedded cards because they believe the costs outweigh the benefits.*

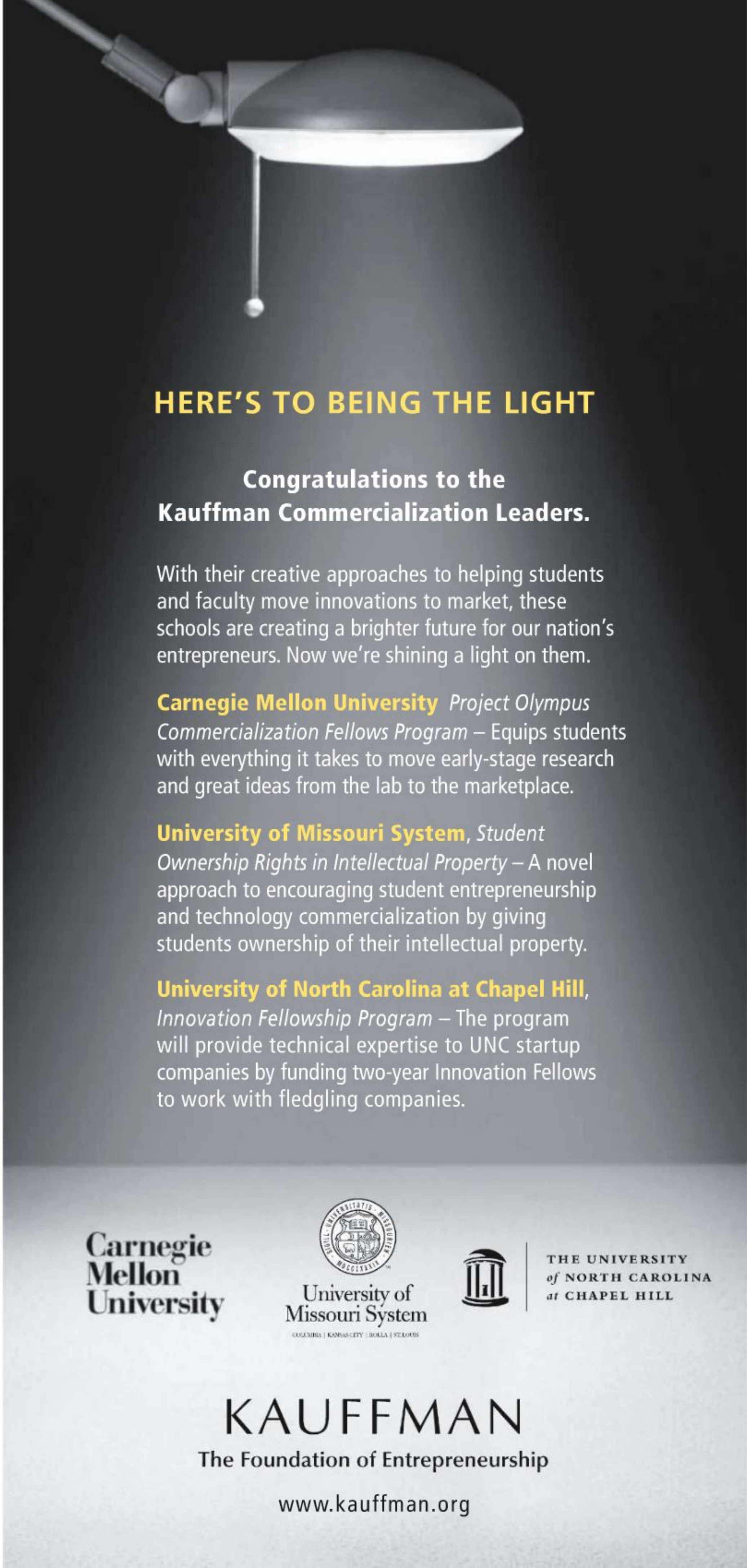
Video Games

Nintendo Goes for the Hard Core With Its 3DS

- ▶ **It wants to win over high-end gamers to reverse a sales slump**
- ▶ **"They understand that the casual market is crowded"**

In Nintendogs, a series of games for the **Nintendo** DS, players train, groom, and feed a virtual puppy. Neglect your Nintendog, and it gets filthy and runs away; care for it properly, and the pup frolics and paws at the screen. With more than 23 million copies sold, it is one of Nintendo's most popular series. It also helps explain the company's current difficulties.

Nintendo became a runaway success as the gaming company for nongamers. The motion-sensing Wii console and the handheld DS featured beginner-friendly fun with titles such as Mario Kart and DJ Hero in addition to Nintendogs. Nintendo kept the technology simple and the prices low—the Wii made its debut in 2006 at half the price of **Sony**'s PlayStation 3—to attract casual players. The trouble is that casual gamers, by definition, don't play or buy a lot of games. While Nintendo isn't forsaking those customers, its new 3DS, due out in Japan in February and in the U.S. a month later, is an effort to win over the players who



Technology

Law Enforcement

To Catch a Car Thief ... Up to 3,600 a Minute, Actually

It no longer takes an alert police officer to spot a stolen car. In fact, it no longer takes a human at all, just a cruiser equipped with the Mobile Plate Hunter-900. Built by ELSAG North America, the system records license plate numbers and checks them against a list of stolen cars. The database is updated twice a day, at noon and midnight–meaning the best time for a joyride is 12:01. —*Arik Hesseldahl*







❶ Two infrared cameras mounted on the trunk capture plate numbers. Each takes two images: a black-and-white one, which is better for reading numbers, and a color one to identify the car and its surroundings.

❷ The digital cameras can read as many as 3,600 license plates per minute, day or night, far more than any police car will encounter.

❸ Plate numbers are checked against a database of stolen or wanted plates. The database, maintained by local police and the FBI, is stored on a hard drive in the trunk.

❹ When the system detects a match, an in-car notebook PC alerts the driver with a beep. The police officer can then decide what action to take.

❺ ELSAG says its system is in use by nearly 1,000 agencies in the U.S. and has helped make more than 5,000 arrests and recover more than 10,000 stolen vehicles.

prefer their games to feature commandos, not canines. "The company has taken a U-turn and is focusing more on core gamers," says Atul Goyal, senior research analyst at CLSA Asia-Pacific Markets in Tokyo. "They understand that the casual market is crowded."

It's a shift born of necessity. Nintendo needs to reverse a sales decline that has caused its stock price to fall 21 percent since 2008. In September the company forecast net income for next year of $1.1 billion, the lowest level in six years. The problem, says Nintendo President Satoru Iwata, is that the company is competing "with anything that demands people's attention and energy." That includes the PlayStation and **Microsoft**'s Xbox, as well as new motion-sensing consoles that Sony and Microsoft are introducing this fall. They'll go up against Nintendo's popular Wii. The company must also compete with popular online games such as **Zynga**'s FarmVille and Mafia Wars. **Apple**, too, is a threat. It has sold 120 million iPhones, iPod touches, and iPads in the past three years and now promotes them as handheld gaming machines that render a second device like the DS unnecessary.

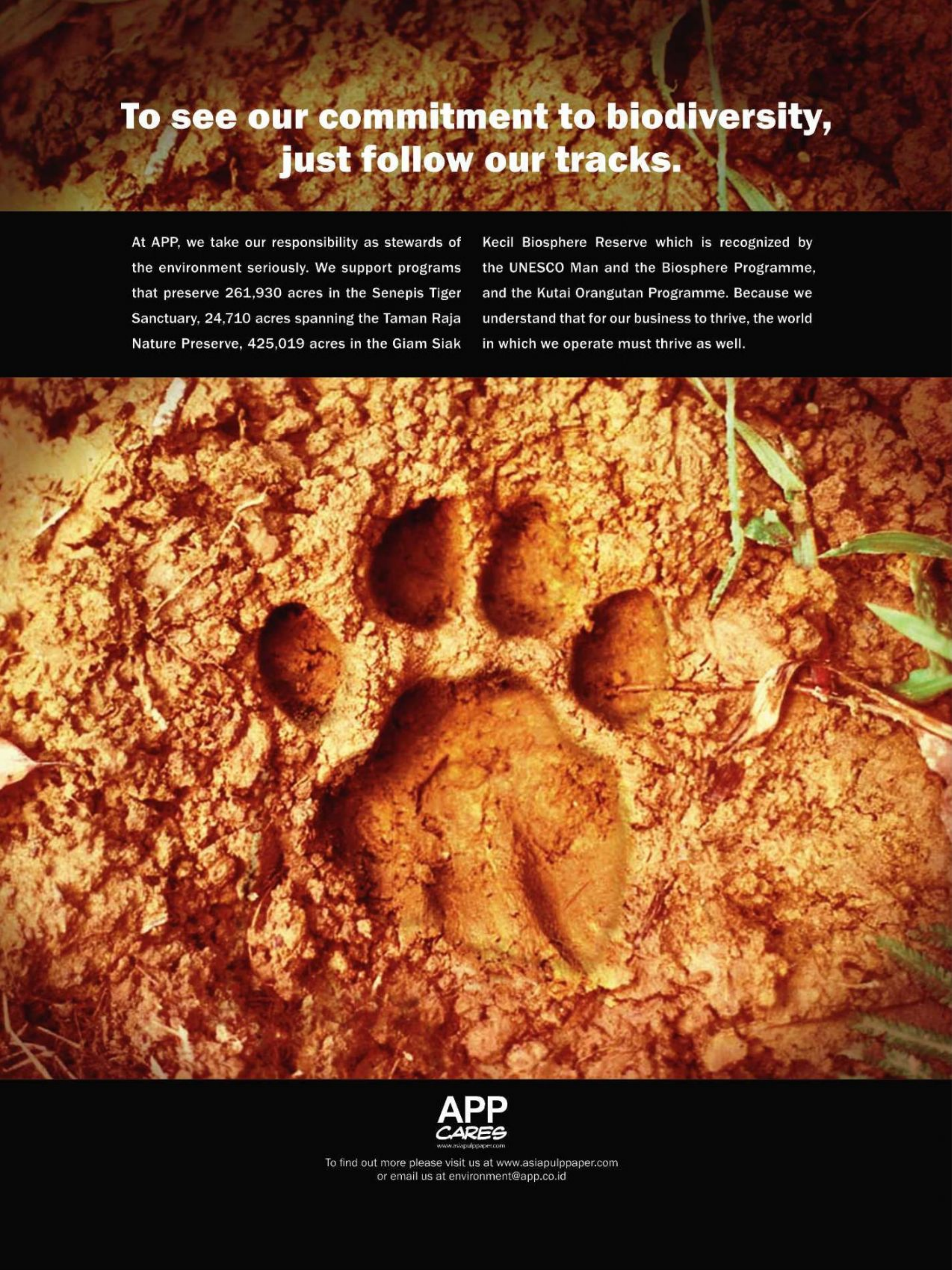
The 3DS: Souped up for complex games



The 3DS, which Nintendo announced in March, will feature wireless Web access, multiple cameras, and accelerometers to sense motion, just like Apple's iPhones and iPod touches. As its name suggests, the 3DS can show three-dimensional images–without the need for special glasses. Nintendo is working with studios to bring streaming, 3D movies to the device. To make it easier to play high-end games such as Activision's Call of Duty: Modern Warfare, the 3DS will house a more powerful processor and a higher-definition display than its predecessor.

Hardware specs are only part of the effort. Nintendo is unique among the big console makers in that many of its best-selling titles, such as The Legend of Zelda and all the Mario variants, are produced in-house, and Iwata says they often outperform games

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from third-party studios. Yet the titles high-end gamers love to play are typically made by outside developers. At a promotional event in Tokyo in September, Iwata pledged more support for outside game developers. Of the 75 titles already announced for the 3DS, only nine are from Nintendo's in-house studio. During the event, he chose **Konami**'s Metal Gear Solid and **Capcom**'s Resident Evil to demonstrate the graphical capabilities of the 3DS.

The 3DS was one of the hottest new products at the annual E3 game confab in Los Angeles in June, where lines of eager developers wrapped around Nintendo's booth waiting to test out the new system. **Activision Blizzard** Chief Executive Officer Robert A. Kotick says the device could be "a game-changer" for the industry.

The question is whether the 3DS will appeal to hard-core gamers. A lifelong Nintendo fan, Tetsuo Suzuka, a 37-year-old visual artist in Tokyo, waited in line to buy a Wii when it debuted in late 2006, only to end up selling it a year later. "The Wii is great for entertaining people at a party or for families," he says. "But it feels futile to be swinging arms around in a room all by yourself." Suzuka says he won't be waiting in line for the 3DS. "Even as the hardware gets more advanced, the contents are still the same light fare." *—Pavel Alpeyev and Yoshinori Eki, with Cliff Edwards*

The bottom line *With the new 3DS, Nintendo is trying to appeal to hard-core gamers and the studios that make action-packed hits like Resident Evil.*

Social Networks

A Fresh Coat of Paint for MySpace

▶ Deep in the red, News Corp.'s site gets a redesign

▶ "We're offering social entertainment, not a social network"

MySpace's new home-page design



The numbers tell the tale of **MySpace**. Visitors? Down 20 percent in the last two years. Profits? None: It loses "below $100 million a year," according to the company. Value? Just over half the $580 million **News Corp.** paid to acquire the social-networking site in 2005, says Alan Gould, an analyst at Evercore Partners.

On Oct. 27, MySpace unveiled a "dramatic remake," as News Corp.'s chief digital officer, Jon Miller, puts it. After years of cluttering its pages with distracting ads and features, MySpace is reversing course and slimming down. It hopes to lure back the lucrative under-35 demographic that has abandoned MySpace for **Facebook**, the top social network in the U.S. In September, Facebook drew 148 million visitors; MySpace had 58 million.

The redesign is also a last-ditch effort to keep News Corp. Chairman Rupert Murdoch from cutting the cord and selling MySpace, which he's likely to do barring a major turnaround, says RBC Capital Markets analyst David Bank. News Corp. declined to comment. Dana Settle, a partner with venture capital firm Greycroft Partners, says "people have been very skeptical" that MySpace can do it. "It's a pretty Herculean task for any sort of entrenched company to really restart itself," she says. MySpace Chief Executive Officer Mike Jones responds that "the feedback we're getting so far is very strong."

The site's best shot at a successful reboot may be a design overhaul. Before the revamp, it had drawn unfavorable comparisons to GeoCities, the early Web company that let people build their own, often tacky websites. MySpace's customizable profile pages became littered with flashing pictures, auto-starting music players, and garish background images that sometimes rendered text nearly unreadable. A $300 million-a-year advertising deal with **Google** (now being renegotiated) rewarded MySpace for page views, so the company added complexity to the site to boost the number of clicks. Until recently, for example, it took three steps to add a friend. "The experience degraded" over time, says Miller in an interview. Jason Hirschorn, a top MySpace executive who left the company in June, is harsher. "MySpace had no respect for user experience," he says.

Jones, a former AOL executive who joined MySpace in April 2009 and oversaw the redesign, decided to streamline the site. He and his team junked little-used features like weather and horoscope pages. Instead, visitors will be greeted by a mosaic of tiles featuring the most popular videos, music,

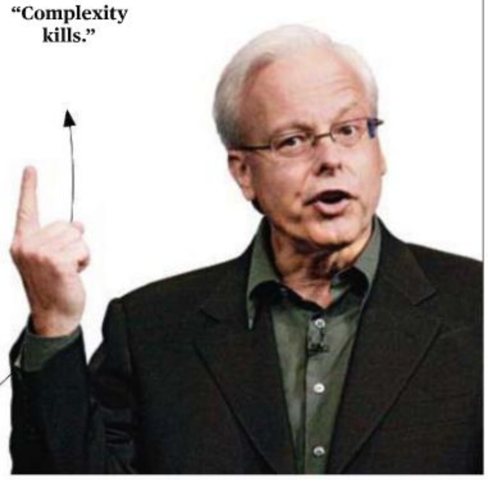
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Parting Shot

The Wisdom of Ozzie

Microsoft's chief software architect, Ray Ozzie, recently announced he'd be leaving the company. On Oct. 28 he posted a 3,412-word manifesto (minus the chapter headings) on Microsoft's post-PC future. To save you the trouble of reading the whole thing, we reduced the verbiage by 3,410 words using Microsoft Word's AutoSummarize feature. The highly condensed version:

"Complexity kills."



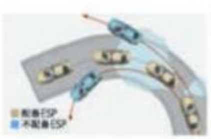
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Das Auto.

Innovator

Kati London



The game designer uses real-world data, like U.K. traffic patterns or GPS signals from tagged sharks, in online games that educate and instruct

For more than a decade a public-service television campaign from the U.K.'s Transport Dept. has relied on cartoon hedgehogs to teach street safety to kids aged 9 to 13, the group of pedestrians most likely to be killed or injured by autos. The hedgehogs urge kids to look both ways before crossing the street. Preteens largely ignore them, however, and the statistics haven't budged.

So in 2007 the British government turned to Kati London, a producer at game-design studio Area/Code in New York City. London is a leader in the small but growing field of people "interested in games for engagement rather than escape," as she puts it. A recent winner of *Technology Review*'s 2010 Young Innovator award, she uses real-world data in online games that are meant to educate or change off-line behavior.

For the U.K., London and her team built a game called Code of Everand, which launched in 2009. Everand's 170,000 users play as Pathfinders navigating a dangerous fantasy world. The game is filled with subtle cues to encourage street safety. Pathfinders crossing a road-like "spirit channel" must look in both directions to check for monsters with outlines that resemble those of some autos; the Mossy Zichlid, for instance, looks like a cement truck in profile. The monsters' speed and frequency are derived from traffic data recorded at U.K. intersections. The idea is to "mimic the natural rhythms of traffic," says London, "and train the brain to adopt the same look-and-wait behavior in real life." The government has commissioned an independent evaluation of the game's impact that is due in spring 2011.

A different project promoted Discovery Channel's Shark Week with a game in which users captain research vessels on the lookout for sharks. The game sharks' paths were determined not by algorithms but by GPS data from real sharks tagged by scientists. The goal was to help the couch-bound better understand the long hours and luck required for scientific discoveries (and get them to watch more Discovery Channel).

London has an analog background: She studied painting at the Rhode Island School of Design before enrolling in New York University's Interactive Telecommunications Program in 2005. There she experimented with ways to blend the online and off-line worlds. One of her projects at ITP was Botanicalls, a small electronic device that measures the moisture level of potted soil and posts a Twitter update—in the voice of a plant asking to be watered—when the dirt dries out.

London says many remain skeptical about games as practical tools for businesses and governments. Clients, though, seem happy. Says Robin Bennefield, who oversaw Sharkrunners for Discovery Communications: "The game made sharks personal. It was just the kind of buzz we needed." B —*Barrett Sheridan*

Background ▶ **Studied painting at the Rhode Island School of Design**
Early Project ▶ **Botanicalls, a device that lets thirsty plants twitter**
Goal ▶ **To build games "that help users engage with the real world"**

Technology

and news on the site. Entertainment content, not friends, is meant to be the focus. "We're offering social entertainment, not a social network," says Jones. The new look is sleeker, though not necessarily quieter. Miller acknowledges that the changes will probably send some MySpace users fleeing but says they'll help attract new members over time. The redesigned site, says Jones, is meant to appeal most to the core demographic of 13- to 35-year-olds, frequent Web users who are prized by advertisers.

The redesign complements other changes Jones has made. Over the summer, MySpace started letting users sync their account with other social-media sites, including **Twitter**, **YouTube**, and yes, even Facebook. (That way, any comments people make on Facebook or Twitter would also appear on their MySpace pages, and vice versa.) MySpace was originally built with five different programming languages, which caused glitches and slow load times; Jones has replaced them with one. "It sounds simple," he says, "but you wouldn't believe how complicated that was."

He also is trying to get his team thinking about mobile—another party MySpace was late to. Facebook more than doubled its mobile users in 2009, to 25.1 million, while the figure for MySpace shrank 7 percent, to 11.4 million. To boost traffic, MySpace will soon roll out a revamped mobile site. Jones and his staff recently developed MySpace Music Romeo, an application for **Apple**'s iPad that plays mood-appropriate music videos when users tell it how they're feeling. "Mobile is the future," Jones says. "I need my people thinking how MySpace fits in that future."

Even if the redesign can stanch the financial bleeding, MySpace still needs to bring back that most ephemeral of assets: cool. The online masses move on quickly, and no one has yet managed to turn around an Internet business in free fall. (See: **Yahoo!**, **AOL**, **MSN**, and **Digg**, the last of which announced on Oct. 26 that it would lay off 37 percent of its staff.) "It's not that News Corp. was naive to buy MySpace," says Bank, the RBC analyst. "They were naive not to sell it sooner." B

—*Andy Fixmer and Ronald Grover*

The bottom line *MySpace unveiled a sleeker new look on Oct. 27 that puts the emphasis on entertainment and celebrities rather than friends.*

PHOTOGRAPH BY ETHAN HILL FOR BLOOMBERG BUSINESSWEEK

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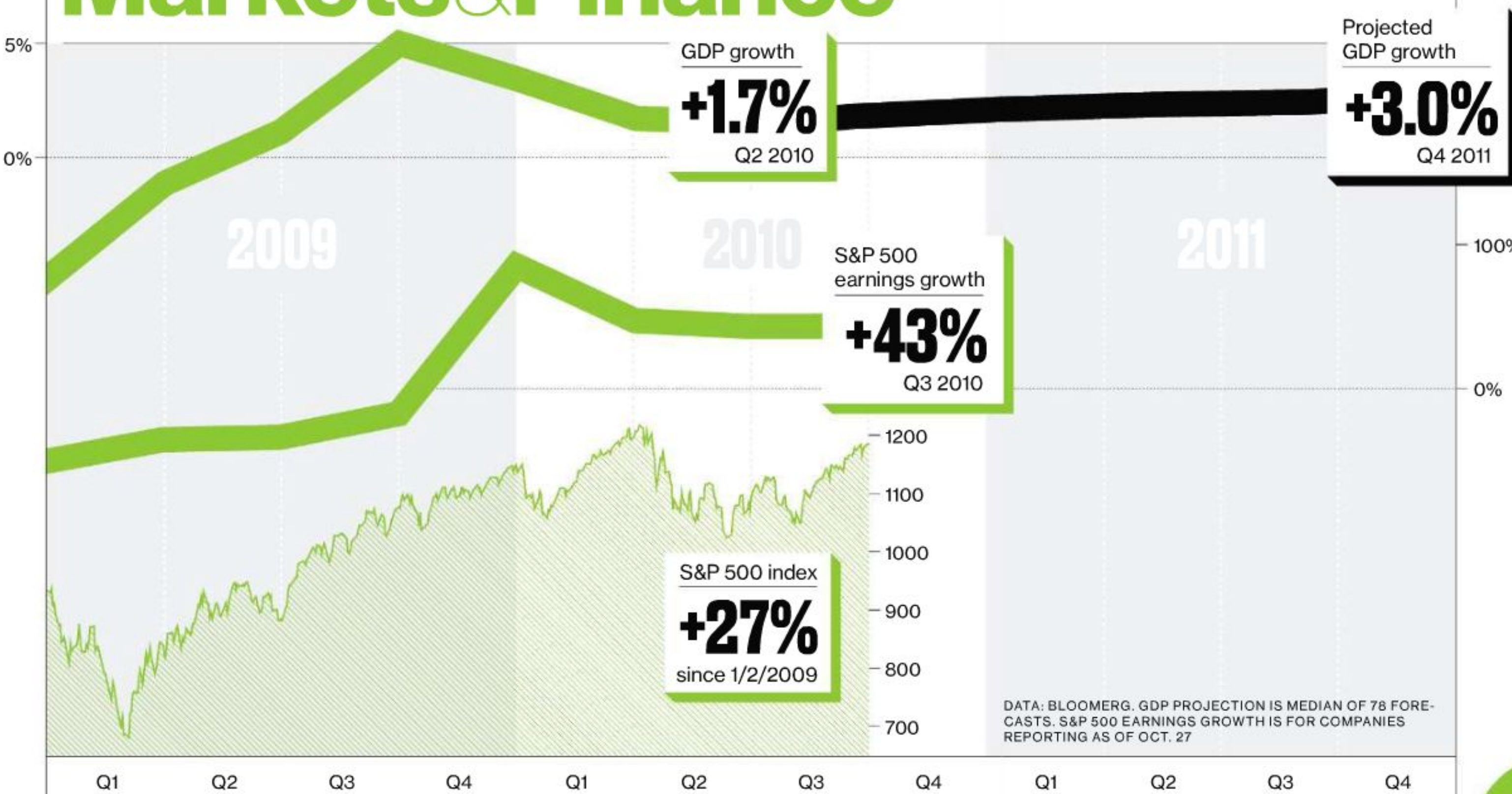


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Edward**Jones**

MAKING SENSE OF INVESTING

Contents ▶ Sizing up Warren Buffett's new investment wiz 48 ▶ A boot camp for lawyers fighting foreclosures 48 ▶ Post-Harvard, a money manager hasn't lost his touch 51 ▶ Banks: A slow growth decade ahead 51 ▶ Bid & Ask: Plenty of luster in Coal India's IPO 52 ● Edited by Eric Gelman



DATA: BLOOMERG. GDP PROJECTION IS MEDIAN OF 78 FORECASTS. S&P 500 EARNINGS GROWTH IS FOR COMPANIES REPORTING AS OF OCT. 27

Stocks and Bonds Are Bullish on the Economy

▶ **Strong showings in a wide range of industries may portend faster economic growth in 2011**

▶ **"The market is telling us it's not all doom and gloom"**

While unemployment remains high and the housing market weak, many large corporations and the stock market are roaring back to life, a sign to some analysts that economic growth next year may be stronger than expected. About 80 percent of companies in the Standard & Poor's 500-stock index that reported third-quarter results as of Oct. 27 have exceeded analysts' per-share profit estimates, helping stocks return to near their 2010 highs. "Equities are a leading indicator," says Thomas Lee, the chief U.S. equity strategist at JPMorgan Chase in New York. "We've added $1 trillion to household equity. There's an intangible benefit to business confidence as well. The stronger we finish in 2010, the more optimistic we're going to feel about 2011."

Bond investors are growing less concerned about deflation and the prospect of a double-dip recession. Instead, they are betting that inflation will pick up as the Federal Reserve acts to bolster the economy. On Oct. 25 the Treasury sold $10 billion worth of inflation-protected securities at a negative yield—the first time that has ever happened. The investors who bought the bonds will only make money if consumer prices rise. About 90 percent of respondents to a Citigroup survey said they expect another round of large-scale asset purchases by the Fed, a tactic meant to boost the economy known as quantitative easing, after the central bank's meeting on Nov. 2-3.

Anticipating an uptick in sales, Kohl's plans to hire about 40,000 people this holiday season

Robust earnings and market enthusiasm run counter to pessimism about the U.S. economy ahead of Nov. 2 congressional elections, in which Republicans are expected to take control of the House of Representatives. While the bad data keep coming—the unemployment rate was 9.6 percent and foreclosures reached a record in September—the markets have a different take. "The market is telling us it's not all doom and gloom," says Nariman Behravesh, chief economist at IHS, a consulting firm in Lexington, Mass. "Earnings are very good in many parts of the economy."

Economists surveyed by Bloomberg News in October forecast an average 2.7 percent growth in gross domestic product this year and 2.4 per-

cent in 2011. Corporate performance fueled by increased productivity and exports may spur economists to raise their estimates for next year, says Joseph G. Carson, director of economic research at AllianceBernstein in New York. "The recovery that started out very narrow is beginning to broaden," he says. (Banks may be an exception. See page 51.)

Automobile production is aiding the recovery, **CSX** Chief Executive Officer Michael Ward said on Oct. 13. Jacksonville (Fla.)-based CSX, the second-largest publicly traded American railroad, reported third-quarter profit that beat analysts' estimates as a 44 percent increase in auto shipments boosted rail volumes. **Ford Motor** reported its best third-quarter earnings ever in October. **General Electric** is optimistic even after a 5 percent third-quarter sales drop. Higher airline traffic, rail loadings, and cargo freight miles all are positive signs, Chief Financial Officer Keith S. Sherin said in an Oct. 15 interview.

Manufacturing activity in the Federal Reserve's 10th district, which includes all or parts of seven Midwestern states, rebounded in September, and producers' expectations for future activity improved, the Kansas City Fed says. **Parker Hannifin**, a Cleveland-based maker of valves and pumps, saw sales in its industrial North America division rise 36 percent in the three months ended in September from a year earlier. The company raised its annual forecast after fiscal first-quarter earnings more than tripled. Cargill, the Minnetonka (Minn.)-based grain distributor, said on Oct. 12 that first-quarter profit rose 68 percent. Sales climbed 6 percent, to $27.8 billion.

There are even signs the American consumer may be starting to shop again. Retail sales rose 0.6 percent in September, following a 0.7 percent gain in August that was larger than previously estimated, according to the Commerce Dept. **Wal-Mart Stores**, the world's largest retailer, may have "positive" fourth-quarter sales at U.S. stores open at least a year after five consecutive quarters of decline, CEO Michael T. Duke said during an Oct. 13 investor conference. **Kohl's**, the fourth-largest American department store chain, plans to hire about 40,000 people this holiday season, 21 percent more than last year, to prepare for a projected increase in sales.

For ING Investment Management's Paul Zemsky, strength in transportation stocks is especially telling. **United Parcel Service** raised its annual profit estimates in October after posting an 80 percent gain last quarter on higher international shipments. Shares of the world's largest package delivery company are up 22 percent since July, while **FedEx**, the world's biggest cargo airline, has seen its shares climb 23 percent. "You need those stocks to do well for an economic recovery to be durable," says Zemsky, the New York-based head of asset allocation for ING, which oversees $550 billion. "People who are counting the U.S. economy down-and-out are making a mistake."
—*Ian Katz, Whitney Kisling, Rita Nazareth, and Daniel Kruger*

The bottom line *Gains in the stock market, plus strong corporate earnings, may indicate that the economy will do better than forecast next year.*

80%

Portion of S&P 500 companies beating profit estimates

Investing

Five Picks from Buffett's New Manager

Warren Buffett named Castle Point Capital manager Todd Combs, 39, to run a "significant portion" of Berkshire Hathaway's investment portfolio, a move that suggests he may succeed Buffett as the company's chief investment officer. Here's how five financial stocks he bought in the second quarter have fared since June 30. —*David Wilson*



Law

Teaching Lawyers How To Fight Foreclosures

▶ **O. Max Gardner runs a boot camp to pass on his strategies**

▶ **"We had a steep hill to climb to convince judges"**

Lawyers have been traveling to a remote 160-acre farm in the mountains of Western North Carolina since 2006 to drink Scotch, network, and prepare for legal combat in foreclosure and bankruptcy cases. Groups of a dozen or so arrive about nine times a year for the four-day "boot camp" where they learn how to protect their clients' assets by exploiting the mistakes of creditors. Their instructor is O. Max Gardner III, a 65-year-old bankruptcy litigator and grandson of a North Carolina governor, who was using flaws in mortgage servicing to stave off lenders years before cases involv-


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Gardner says his 559 graduates act like a large law firm

ing shoddy paperwork spurred an investigation by the attorneys general of all 50 states. Gardner charges $7,775 for the program, which includes 3,000 pages of materials, lodging, food, and unlimited wine, beer, and single-malt Scotch.

"My time with Max changed the trajectory of my legal career," says Nick Wooten, a 40-year-old Alabama attorney who shifted his focus from personal injury to bankruptcy and foreclosure after attending the boot camp in 2007. "Knowledge is power, and one thing he is able to give in his boot camp is a tremendous amount of knowledge about how the other side operates," says Wooten.

Attendees, who are admitted only after a background check confirms they don't work for creditors, travel along a gravel road to reach Gardner's farm in the South Mountains. They sleep in cabins and swap stories over meals prepared by Gardner's wife, Victoria, in the family's three-story log-cabin style house on a hill overlooking a pond. Gardner spends 10 to 12 hours each day on topics such as "Max's Favorite Discovery Devices," "Strategy to Trap Opponents in their Own Mistakes," "Mortgage Servicing Litigation: How the Legal Network for Creditors Is Organized," and "The Alphabet Problem, A to D Unlawful Transfer of Mortgages and Notes." Guest speakers at his October boot camp included a forensic accountant, a North Carolina Superior Court judge, and the former general counsel for Saxon Mortgage, now owned by Morgan Stanley.

The heart of Gardner's strategy is to uncover omissions and errors in mortgage securitizations, the process in which thousands of loans are bundled into bonds and sold to investors. Securitizations are plagued by lost promissory notes and missing or inconsistent tracking of changes in ownership of loans, Gardner says during a break at the October session. "One of my primary objectives is to give you enough knowledge so that you can understand more about the business structure and organization of the creditors than their own lawyers know," he tells a class.

Quoted

"The words 'banking' and 'crises' are natural bedfellows. If love and marriage go together like a horse and carriage, then banking and crisis go together like Oxford and the Isis, intertwined for as long as anyone can remember."
—Mervyn King, Bank of England Governor



He started the boot camp after piecing together evidence that lenders and servicers were relying on teams of workers–what defense lawyers now call "robo-signers"–to process thousands of foreclosure documents a day without the time to verify them. While Gardner and some of his 559 graduates have been winning settlements for years, it wasn't until Sept. 20, when **Ally Financial** said it was halting some evictions, that foreclosure documentation became a national issue. "We had a steep hill to climb to convince the judges that the largest financial institutions in America were engaged in this kind of conduct," Gardner says.

Most foreclosures go unchallenged because homeowners rarely hire attorneys. That changed as judges began questioning whether banks were producing sufficient proof that they had standing to foreclose. Private attorneys working on behalf of homeowners are paid in different ways. Some are paid by clients, many of whom have cash even though they aren't making mortgage payments, says Margery Golant, a Boca Raton (Fla.) attorney who graduated from the boot camp in August 2009. If a bankruptcy court judge believes a mortgage company has submitted false evidence, the court can order the creditor to pay legal fees, she says.

Gardner says the graduates of his program act like a large law firm. Linda

CLOCKWISE FROM TOP LEFT: PHOTOGRAPH BY NATHANIEL WELCH FOR BLOOMBERG BUSINESSWEEK; TONY CENICOLA/THE NEW YORK TIMES/REDUX; PAUL THOMAS/BLOOMBERG

Why Coca-Cola needs Africa page 54 ▶



Tirelli, a consumer bankruptcy attorney in New York and Connecticut who attended the program in October 2008, says she has the confidence to go up against what Gardner calls "tall-building law firms" because the community of graduates located in 47 states functions as a unit, exchanging documents and discovering patterns of misconduct. "It's a fraternity," she says. "We don't see each other as competition. We want more attorneys to join, because the more we have the better." —*Prashant Gopal*

***The bottom line** Gardner is training other lawyers to challenge foreclosure proceedings—and "tall-building law firms"—in court.*

Hedge Funds

A Money Manager Stays Hot After Harvard

▶ Jack Meyer's $11 billion Convexity Capital is beating the market

▶ "The next thing we knew, we were an investor"

When Jack Meyer, a former head of Harvard University's endowment, started hedge fund firm **Convexity Capital Management** in 2005, Lou Morrell wasted little time putting money in. Morrell, then the investment chief at Wake Forest University in Winston-Salem, N.C., flew to Boston to visit Meyer at his new offices in the John Hancock Tower. Meyer and his top lieutenant, David Mittelman, who worked with him at Harvard, explained how their new funds would employ many of the strategies they had used to maintain the university's position as the richest in the world. "The next thing we knew, we were an investor," says Morrell, who retired last year.

Convexity received $6.3 billion in commitments from endowments and foundations—including a pledge of $500 million from Harvard—a record at the time for a hedge fund startup. And Meyer has delivered. Since he began trading in February 2006, his funds have outperformed their benchmark indexes by an annual average of about 8 percentage points, according to four investors who asked not to be named. Convexity's assets climbed to $11.1 billion as of Mar. 31, say the clients. An outcry from alumni and faculty about excessive pay—Mittelman and another Meyer lieutenant each earned more than $30 million in 2003—led Meyer to leave his post at **Harvard Management**, which runs the endowment, in September 2005. Meyer, 65, declined to comment, as did John Longbrake, a spokesman for Harvard.

In the decade before Meyer departed, Harvard posted annual average gains of 16 percent a year. Among large U.S. endowments, that trailed only Yale's 17.4 percent and Duke's 17.2 percent. Investment earnings, plus gifts, helped the endowment grow to $25.9 billion in 2005 from $4.7 billion in 1990, when Meyer took over. It held $27.4 billion as of June 30.

Convexity offers funds that replicate various indexes while using options, swaps, and other strategies to provide an additional gain, known as alpha, of about 4 percentage points, according to an investor document obtained by Bloomberg. A fund designed to outperform an index of Treasury Inflation Protected Securities (TIPS) is the firm's most popular, holding 24 percent of its assets as of Dec. 31. Funds that seek to top the MSCI EAFE index, which tracks developed markets outside the U.S., and the Standard & Poor's 500-stock index were second- and third-largest.

The strategies Meyer uses tend to perform better in times of market volatility. In his first year, a quiet one for Wall Street, the funds underperformed their benchmarks by 4 to 6 percentage points, investors say. In 2009 the firm beat its indexes by 20 percentage points. Convexity—the name refers to a measure of how a bond's value is affected by changes in interest rates—charges a management fee of 1.25 percent each year on assets and takes 20 percent of returns that exceed the funds' benchmarks.

Investors recognize that no strategy is foolproof. "There's always a chance of something blowing up," says William T. Spitz, Vanderbilt University's chief investment officer, who committed at least $50 million after Meyer visited him in Nashville. "The other major risk is if we go back into a period of low volatility, you might have the same experience as the first year or two." —*Gillian Wee*

***The bottom line** After adding billions to Harvard's endowment with sophisticated investing strategies, Jack Meyer is showing he can still beat the market.*

Financial Industry

Banks Face a Decade of Slow Revenue Growth

▶ New rules and a weak economy are affecting many lines of business

▶ "The speed limit's been lowered for how fast banks can drive earnings"

Banks may be facing their slowest period of growth since the Great Depression. After posting record revenue in 2009, the six largest U.S. banks saw combined net revenue fall by an average of 8 percent in the third quarter from a year earlier, driven by declines in everything from trading at **Goldman Sachs** to home lending at **Bank of America**, according to data compiled by Bloomberg.

Next year will kick off a decade that will bring the "worst revenue growth" for U.S. banks in 80 years, says Mike Mayo, a banking analyst at Crédit Agricole Securities USA in New York. "Revenues aren't just weak for this quarter, or even for this upcoming year," he says, "but for the entire upcoming decade."

The trend is hitting almost every line of business. The 17.6 percent drop in net revenue since Mar. 31 at ➔

996

BILLION DOLLARS

Estimated U.S. mortgage lending in 2011, down from a projected $1.4 trillion this year. It would be the lowest level since 1996.

DATA: MORTGAGE BANKERS ASSN.

Charlotte (N.C.)-based Bank of America, the largest U.S. bank by assets, came mostly from declines in the company's mortgage lending and credit-card businesses. **JPMorgan Chase**, where revenue fell 13.9 percent over the same period, has been hurt by bad credit-card loans. JPMorgan Chief Executive Officer Jamie Dimon told analysts on Oct. 14 that the bank will lose roughly $750 million in profit as a result of new restrictions on the fees it can charge for credit cards, checking accounts, and other consumer services. He also said derivatives rules will cost the bank $1 billion in revenue.

At **Morgan Stanley**, a drop in fixed income and equity trading drove revenue down 25.3 percent over the past two quarters. Goldman Sachs and Morgan Stanley both posted declines in fixed-income trading revenue of more than 37 percent, while **Citigroup**'s investment banking revenue was down 20 percent.

Profits are still strong. The six banks posted combined net income of $39.6 billion for the first nine months of the year, up from $39.5 billion for the same period last year, thanks mainly to lower provisions for loan losses. In coming years, though, weaker revenue growth may crimp profits. "The speed limit's been lowered for how fast banks can drive earnings," says Mayo.

Revenue growth rates for banks have been declining for 40 years, according to Federal Deposit Insurance Corp. data. U.S. banks had compound annual revenue growth of 12 percent in the 1970s, about 10 percent during the 1980s, 8 percent in the 1990s, and 6 percent over the most recent decade. To counter that trend, banks are looking to expand overseas, where economic growth rates are about twice those of the U.S. JPMorgan Chase in February announced plans to double its 4 percent share of the Asian market over the next few years.

Christopher Whalen, co-founder of Institutional Risk Analytics in Torrance, Calif., says increased lending has been the main source of banks' growth. Now that "you've withdrawn all of this credit from the economy," he says, "you're also taking a component of revenue out." B —*Dawn Kopecki and Michael J. Moore*

The bottom line *Facing new restrictions and a weak economy, big U.S. banks are likely to see years of slower revenue growth.*

Bid & Ask

by Cristina Lindblad



1 **IBM**'s board authorized an additional $10 billion for stock buybacks. Since taking over as chief executive officer in 2003, Sam Palmisano has spent more than $68 billion on share repurchases—a figure equal to about 38 percent of IBM's current market value.

2 **Singapore Exchange** offered $8.3 billion for ASX, the company that runs the Australian stock exchange. Some Singapore Exchange shareholders and Australian politicians object to the bid.

3 **JPMorgan Chase** and five other banks loaned California $6.7 billion to pay delinquent bills that piled up in the 100 days the state was without a budget.

4 **La Poste**, France's national mail service, will receive a $3.7 billion investment from the French government and the state-owned lender Caisse des Dépôts et Consignations.

5 Government-owned **Coal India** raised $3.4 billion in an initial public offering. The IPO surpassed the previous Indian record set by Reliance Power, which raised $2.5 billion in January 2008.

6 **LVMH Moët Hennessy Louis Vuitton** paid $2 billion for 17.1 percent of family-owned Hermès, maker of the Birkin bag, silk scarves, and other luxury items. Analysts speculate this is a first step toward an eventual acquisition of the company; LVMH says *pas du tout*.

7 **Ventas** will be the largest owner of U.S. senior housing communities after it acquires nearly all the real estate assets of Atria Senior Living Group for $1.5 billion.

8 **OMV**, Central Europe's largest oil company, paid $1.4 billion to boost its stake in Turkey's top fuel retailer, Petrol Ofisi, to nearly 96 percent.

9 **BP** sold interests in four deepwater Gulf of Mexico oil and gas fields to Marubeni Oil & Gas for $650 million. CEO Robert Dudley plans to sell as much as $30 billion in assets to pay for the cost of the worst oil spill in history.

10 A **Bulgari** ring from the 1970s featuring a rare blue diamond fetched $15.7 million at a Christie's sale, the highest price paid at auction for a piece of jewelry this year.

FROM TOP: CORBIS; ALAMY; GETTY IMAGES; BLOOMBERG; ATRIA; BLOOMBERG; CHRISTIE'S IMAGES


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Coke's Last Round



By Duane D. Stanford
Photographs by Marco Di Lauro



Sales are flat in developed countries. For Coke to keep growing, Africa is it

Coke is in a street-by-
to increase consumption

Piles of trash are burning outside the Mamakamau Shop in Uthiru, a suburb of Nairobi, Kenya. Sewage trickles by in an open trench. Across the street, a worker at a bar gets ready for the lunch rush by scraping the hair off a couple of roasted goat heads. It's about 70 degrees, the sun is beating down, it smells like decay, and it's time for Coke to move some product. Annual per capita consumption of Coca-Cola in Kenya is 39 servings. In more developed countries like Mexico, which consumes more Coca-Cola than any other country, it runs 665 servings per year. One does not need an MBA to see the possibilities.

Two, in fact, have just walked in. The pair wear short sleeves and jeans. They reach into a refrigerated cooler, grab two Cokes in glass bottles, and pull up two overturned red crates for chairs. Mamakamau Kingori, proprietor, 39, bustles up in a patchwork-quilt apron to take their money. The 500-milliliter sodas cost 30 Kenyan shillings (37¢) each. As is often the case in Africa, the customers enjoy the drink on the premises, the deposit on the bottles being too dear.

Such a transaction happens about 72 times a day at Mamakamau's, and that has earned her the status of a "Gold" vendor, the highest level awarded by the local bottler. Kingori's sundry store—known locally as a "*duka*"—also sells plastic buckets and mattresses, and is no larger than a small bedroom. Her Gold status brings benefits, like an introduction to Coke's globally standardized selling techniques. She's urged by Coke to promote combo meals to boost profits, and so red menu signs supplied by the beverage company suggest a 300-milliliter Coke and a *ndazi*, which is a kind of greasy donut, for 25 Kenyan shillings. Coke also paid for the red refrigerated drink cooler at the entrance to the shop, which is protected by a blue cage. She's told to keep it full to draw attention, and to stock it according to a diagram inside: Coca-Cola always at the top, Fanta in the middle, large bottles on the bottom. At stores down Naivasha Road, and throughout the continent and the rest of the world, Coke fridges are stocked in similar fashion.

Chasing shillings in Nairobi is the sign of both a healthy company expanding its borders and an empire so mature that it must, for its last great push, reach into many of the most war-torn and impoverished countries on earth. Chief Executive Officer Muhtar Kent may not be weeping, like Alexander the Great, at the prospect of having no worlds left to conquer, but with Coke sales stagnant or plodding in most of its developed markets—North Americans bought $2.6 billion worth of Coke in 1989 and just $2.9 billion 20 years later—Coca-Cola will rely on some of the poorest nations to generate the 7 to 9 percent earnings growth it has promised investors. That means, from the *dukas* of Nairobi to the "tuck shops" of Johannesburg, Africa's mom-and-pop stores are a major front in Coke's growth plan, not only for the flagship soda but also for the company's huge stable of waters, juices, and other soft drinks.

Per-capita consumption of Coke is also low in India and China, relative to the U.S., Europe, and Latin America, but those two continents present less of an opportunity for the company than Africa. China's market, famously difficult for outsiders to navigate, is already crowded with competitors like Wahaha, whose founder Zong Qinghou is China's richest man. India drinks Coke, but loves Pepsi, too. In New Delhi, Pepsi is so popular that the name is Hindi shorthand for soda of all kinds, even Coke. Coke will continue to compete in those countries, of course, but Africa, where Coke is the dominant brand, and where the middle class is just emerging, may offer a potentially greater payoff.

Coke has been in Africa since 1929 and is now in all of its countries; it is the continent's largest employer, with 65,000 employees and 160 plants. Its market share in Africa and the Middle East is 29 percent, which adds up to 9.1 billion liters of beverages a year. Pepsi's share is 15 percent. But now the small shops in the back alleys have become more important, as Coke wagers on Africa finally emerging as a viable market in the

At Rosinje Distributors in Nairobi, the warehouse is a shipping container ...



street campaign in countries not used to guzzling Coke by the gallon

next 20 years, riding a hoped-for wave of improving governance and demographics. Coke is now in a street-by-street campaign to win drinkers, trying to increase per-capita annual consumption of its beverages in countries not yet used to guzzling Coke by the gallon. To do so, Coca-Cola is applying lessons learned in Latin America, where an aggressive courtship of small stores helped boost per-capita consumption in Mexico to the highest in the world.

"I'm not interested in owning Coke when it's got no more continents," says Ned Dewees, a principal at Douglas C. Lane & Associates in New York, which manages $2 billion and owns Coke and PepsiCo shares now. "But that's 15 to 20 years from now." Africa offers "enormous opportunity" for Coke, agrees Philip Gorham, a senior equity analyst for Morningstar in Chicago.

Looking to capitalize on its position in Africa, Coca-Cola is adding beverage plants and developing packages and products to serve a growing population with rising incomes—and anticipating that stable governments will allow the Coke sales machine to work at speed. In 2000 about 59 million African households earned at least $5,000, which is the point when families begin to spend half their income on nonfood items, according to a recent McKinsey report. The study suggests that number could reach 106 million households by 2014. Coke plans to spend $12 billion in the continent during the next 10 years, more than twice as much as in the previous decade. The expansion will include new juice plants to capture a growing middle-class demand for orange, mango, and other tropical fruit beverages, as well as to allow wider distribution of plastic bottles as more consumers can afford to sip on the go or buy the two-liter family sizes that Americans take for granted.

As Kent hunts for consumers, he is shadowed by a number Coke may never see again—$87.94. That was the company's stock price on July 14, 1998, when its shares reached an all-time high following the 16-year term of former CEO Roberto Goizueta. By 2003, the stock was less than half that as everything from a contamination scare in Belgium to a race-related class action in the U.S. flattened the company. The turmoil was coupled with high turnover at Coke headquarters in Atlanta. Goizueta died of cancer in October 1997, and Coke has had four CEOs since.

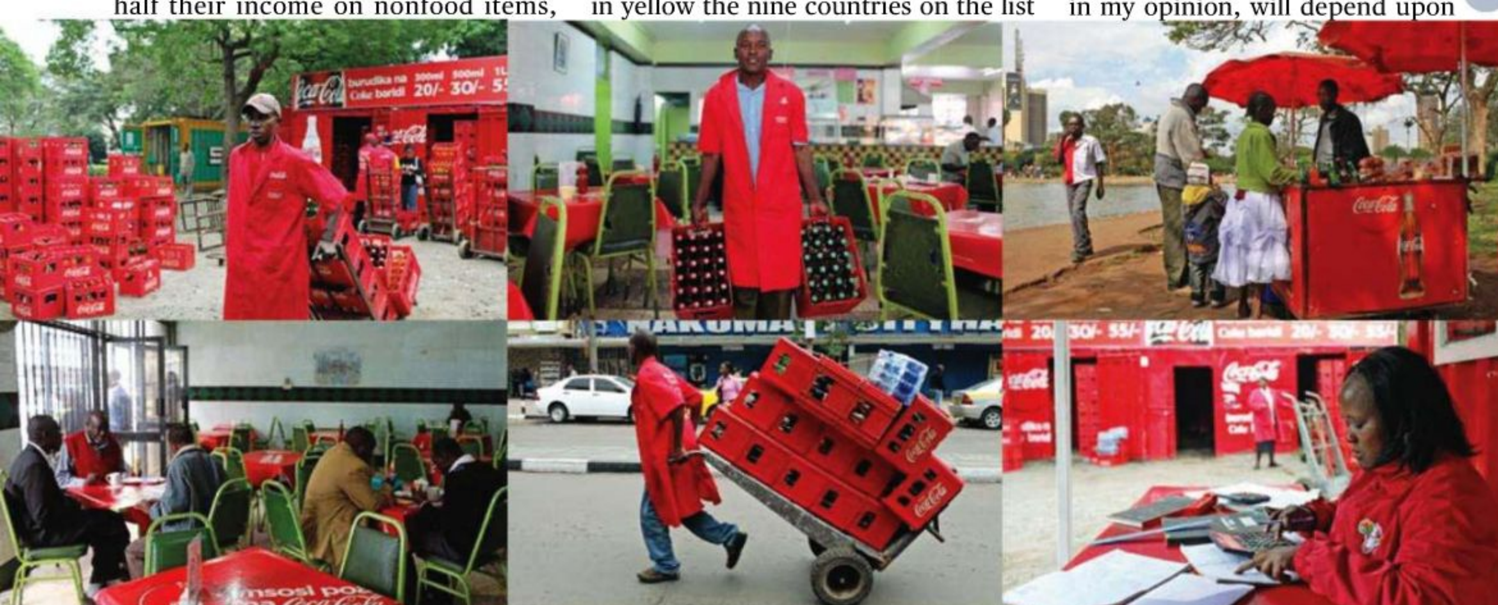
Muhtar Kent started in 2008. Now, as he travels the globe in search of growth, he keeps a green spreadsheet in his briefcase from the industry newsletter *Beverage Digest*. It lists the soft drink market shares for Coca-Cola and PepsiCo in 95 countries last year. Kent has highlighted in yellow the nine countries on the list where PepsiCo leads. None is in Africa.

"Africa is the untold story, and could be the big story, of the next decade, like India and China were this past decade," Kent says. "The presence and the significance of our business in Africa is far greater than India and China even today. The relevance is much bigger."

The 25th-floor executive suite at Coca-Cola headquarters in Atlanta, from which Kent, 57, runs the company, resembles the oversized living room of a new-South mansion. Draped in rich cream fabrics and varnished wood accents, the floor is connected to the executive offices below by a spiral staircase. Portraits of company leaders such as Robert W. Woodruff, who ran Coke from 1923 to 1954, and oil paintings used for old ads hang in wooden frames.

Kent briskly enters a small dining room connected to his office. He is famous at Coke for his energy, known to contact subordinates at all hours from far-flung time zones. Broad-shouldered and barrel-chested, with thinning hair, he is dressed as usual in a shirt and tie. He wears a tie-bar Coke gave him in the 1990s for 15 years of service, with one small ruby for each five years worked.

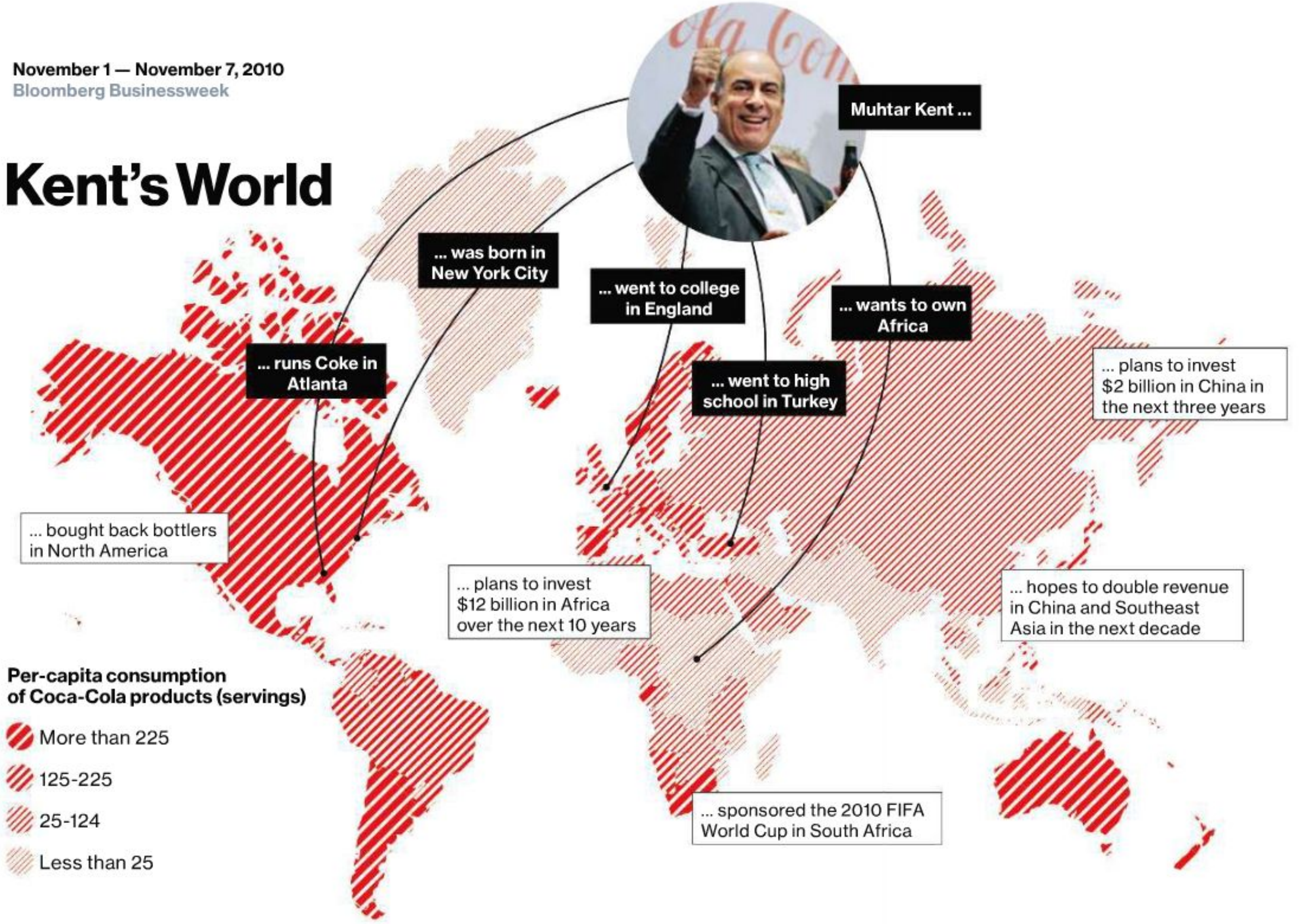
"You've got an incredibly young population, a dynamic population. Huge disposable incomes. I mean, $1.6 trillion of GDP, which is bigger than Russia, bigger than India," he says, leaning into the table. "It's a big economy, and so rich underground. And whether the next decade becomes the decade of Africa or not, in my opinion, will depend upon



...and the soda is delivered to 345 shops by hand truck

Owner Rosemary Njeri moves more than 20,000 cases a month, one at a time

Kent's World



one single thing–and everything is right there to have it happen–and that is better governance. And it is improving, there's no question."

Kent's understanding of the importance of government may be as much inherited as learned. His father, the late Necdet Kent, was a Turkish diplomat. While stationed in France during World War II, the older Kent, who was Muslim, issued citizenship papers to Jewish refugees facing deportation by the Nazis. By December 1952, when Muhtar was born, Necdet Kent was serving as the Turkish Consular General in New York.

Whenever possible, Kent arranges meetings with political leaders during his travels, whether he needs something from them or not. Such relationships come in handy when, for example, he needs permission to build a new bottling plant. In July, Kent hosted Jacob Zuma, the President of South Africa, at a Special Olympics soccer match during the recent World Cup, which was heavily sponsored by Coca-Cola. "I invited him to come and join when we were together in Davos, and he kindly accepted," says Kent. "When everyone was pulling him in one direction because it was right in the middle of the World Cup, he came and spent the whole afternoon with us."

Though Kent grew up in Turkey, he studied economics at the University of Hull in the U.K., and earned a master's in administrative sciences from London City University. He started at Coca-Cola in 1978, answering a want ad. He was soon based in Italy, where he managed advertising and sports marketing for several regions including North Africa. His first assignments required regular trips to Morocco, Tunisia, and Algeria. He's been working in and with Africa ever since, and gets excited as he rattles off the countries he's visited on the continent.

"There's nowhere in Africa that we don't go," he says. "Being in a country is very easy, you can go and set up a depot in every capital city. That's not what we're about. We go to every town, every village, every community, every township."

Population growth in Africa has long been a source of concern, as food and fresh water supplies are strained, but Kent argues that Africa's plentiful young may actually be viewed as its strength. "In the old days when I used to study economics at university in England, everybody who taught macroeconomics used to say how bad population growth was, that it would condemn a country to poverty," he says. "The world has actually changed. You need a young population for a country to survive."

Maturing economies are of particular concern to Kent. Since taking over as chief executive, Kent has struggled to find growth in countries such as the U.S. and Europe, two of Coke's largest and most profitable markets. The U.S. soda market has declined for five consecutive years, prompting both Coca-Cola and PepsiCo to buy back bottlers to retain more of a shrinking profit pie. In this, they are reversing a decision made years ago when the lower-margin business of manufacturing and distribution was shed from the higher-margin business of licensing, keeping returns on capital high. The benefit no longer outweighs the loss of control in markets where profit growth comes not from new demand but through measures such as shaving millimeters off plastic caps, as both Coke and Pepsi have done.

So Kent looks overseas, increasing investments in developing countries as part of a plan to double, by 2020, the $100 billion in global system revenue last year. Kent is fond of pointing out that 1 billion consumers will come into the middle class during the coming decade, mostly in Africa, China, and India.

Ahmet Bozer, president of Coca-Cola's Eurasia & Africa Group, notes Africa's minuscule debt and positive trade balance. Governments like Zambia are collaborating more with institutions such as the World Bank and the International Monetary Fund. Regional trade agreements are being signed. "There are lights coming on in the continent," says Bozer, minutes after stepping out of an August meeting with Coke's Zambian bottler and local company executives in Lusaka.

STAN HONDA/AFP/GETTY IMAGES; DATA: COCA-COLA

A day earlier, Bozer had visited a bottler in the Democratic Republic of Congo who was elated over a new 200-kilometer road built near the country's troubled northern region. The access helped the bottler triple his business in the area.

Africa, of course, is not Atlanta, and Coke is, in a sense, sticking its hand into a bees' nest to get some honey. Poverty, war, and shortages of fresh water plague the region and make commerce extremely difficult, especially for a company whose chief product is discretionary and offers no nutritional value aside from calories. Political instability complicates the building and supplying of factories, and transportation is notoriously unreliable. In the Sudan, Coke supplies syrup to an independent distributor but is barred by the U.S. government from providing any marketing or sales support. Somalia is in the midst of a decades-long civil war, and though soda gets in via boat, the bottling plant is closed. In Zimbabwe, Coke supplies "dried up" for the first time in 40 years in 2006, during the economic crisis there under Robert Mugabe.

"It's a hugely undeveloped continent, but in order to become the next China it will have to have some growth driver," says analyst Gorham. "In China's case that was exports. In Africa it will have to be exports as well."

In the U.S., health advocates who say Coca-Cola contributes to an epidemic of obesity have put the company on the defensive. Last year, Kent attacked a congressional proposal to tax soft drinks to pay for health care, calling it "outrageous" and comparing it to actions the Soviet Union might have taken. Still, Coca-Cola and PepsiCo have relented on calls for clearer calorie information on packages and a ban on soft drink sales in schools. In Africa, though, arguments over empty calories are mostly drowned out by concerns of too few available calories of any kind. That is not to say that Africa offers some kind of health-concern-free marketing Shangri-la. The World Health Organization has called a rise in overweight children in countries including Nigeria "disturbing" and warned of the same for adults in Northern Africa. The U.S.-based Center for Science in the Public Interest—famous for its 1998 anti-soft drink report, "Liquid Candy"—has turned its attention to obesity in countries like South Africa, already joining with international activists for a Global Dump Soft Drinks Campaign.

Coca-Cola, however, remains undaunted, at least in the person of Nathan Kalumbu, president of the company's East & Central Africa Business Unit. Kalumbu keeps a photo of a pride of lions above his desk in Nairobi. When it comes to selling, Kalumbu says the animals remind him to "go kill something," whether it be a corner store or an entire continent. "You gotta get hungry," he says.

In Africa, most soft drinks are sold in returnable glass bottles. In Coke's plants they are refilled as many as 70 times each before they're recycled, depending how far the bottler chooses to stretch the glass. Returnable bottles help keep prices down so the company can reach more of what it calls "economically diverse" customers. Consumers, in effect, pay only for the liquid in the bottle.

As any good Coke man will tell you, the first rule is to get the product "cold and close." In Alexandra, a dense township of 500,000 in Johannesburg, South Africa, with 65 percent unemployment, Coca-Cola is sidling right up. Last year the local bottler blanketed streets with drink coolers and Coke signage. To keep the coolers full, the bottler extended credit to merchants who didn't have the capital to take on inventory, giving them seven days to pay. "That's one of the challenges in this market," says Billy Tom, a district manager for bottler South African Breweries. "You want the pipeline to be full all the time." Sales on one test street rose from 5,000 to 14,000 cases in the first six months of the year.

Not everyone on the local level appreciates Coca-Cola's aggressive tactics. Patricia Ndlovu, 45, saw her business dip after the Coke bottler decked out her general store-like tuck shop and tavern in red tablecloths and Coke signs. The bottler even installed a remote opener on the door of Ndlovu's drink cooler so the attendant, behind a small window, could open it when a customer rang a small chime. Some of the locals became jealous and stayed away, thinking she was being paid for tarting up the neighborhood. Things got worse when the Coke bottler painted a nearby wall red and the owner demanded payment from Coke. Coke repainted the wall white.

Mostly, though, Coke's plans work. In Kabira, a Nairobi slum the size of New York's Central Park, shop after shop along the densely populated main roads are Coke-red, like colored links in a chain. The local bottler hires an artist to paint the makeshift stores with logos and enticements like "*Burudika na Coke Baridi*," Swahili for "enjoy Coke cold."

Outside one of those shops, Ann Kimeu, 34, sips Sprite through a straw from a green glass bottle. A few blocks away, residents of the slum, which has no public water or sewer system, pay 3 shillings to fill used 20-liter cooking oil jugs with fresh water from a Coke-sponsored well. At a new bathroom Coke is helping to build in the poorest section of the slum, it will cost 2 shillings to use the toilet or the shower. Kimeu buys soft drinks as many as four times a week. It's not a treat. She's mostly just thirsty. A seamstress, Kimeu earns about 1,000 Kenya shillings ($12) a week when business is good. At 35 shillings a bottle, the soft drinks consume 14 percent or more of her income.

Morning breaks in Nairobi's Central Business District, and men in red Coca-Cola lab coats arrive at Rosinje Distributors as red trucks pull up from a local bottling plant. Rosinje is one of 3,000 Manual Distribution Centers that are the backbone of Coca-Cola's delivery system in places such as Kenya and a big part of the plan to get Coke into every alley. Ayub Onyango, 28, helps unload red plastic crates of soft drinks into three shipping containers, which serve as a warehouse. Slender, with a runner's physique, Onyango will stack up to 22 crates, about 40 pounds each when full, onto a two-wheeled trolley. He and 10 others then fan out on the broken and congested streets of Nairobi to deliver Coke, Fanta, and Stoney Ginger Beer to about 345 small shops and beverage kiosks. With no room for inventory, many shopkeepers order as little as a case a day, and, with the crowds and the poor roads, it's easier to deliver by hand.

Onyango's boss, Rosemary Njeri,

One executive keeps a photo of a pride of lions above his desk in Nairobi. The animals remind him to "go kill something"



“There’s nowhere in Africa that we don’t go,” says CEO Kent. “We go to every town, every village, every township”



A crate heads out from Rosinje Distributors

herself peddled clanking crates of soda shop-to-shop as a stockist 12 years ago. The mother of three worked her way up to eventually own one of Nairobi Bottlers' largest Manual Distribution Centers, moving 20,000 to 25,000 cases a month.

The program helps the company beat Pepsi to remote customers as they develop the taste and the income for soda. Coke is also establishing Manual Distribution Centers like these in countries such as Vietnam and Thailand, where poor roads are also a challenge. In 2010, Kent is adding more than 1,200 such distribution centers in Africa. They currently employ more than 12,000 Africans and generate $500 million in annual revenue.

Coca-Cola teaches these mini-distributors everything about how to run a business—from things as simple as waiting until the midday rush before icing down the Cokes to save resources to how to buy a house with their newfound wealth.

Coke is working to bring Njeri's business into the 21st century. In August a small team from Nairobi Bottlers studied maps of Njeri's territory and evaluated hand-tabulated data to help construct new delivery routes. Up until now, Onyango and his fellow salesmen visited a handful of accounts in the morning before going back to the distribution center to load up and deliver. They repeated this several times a day until their route was done.

Now a specialized sales team has been walking accounts, sending orders in the afternoon by cell phone to laptop computers. That lets Onyango and his colleagues concentrate on deliveries, while the sales crew helps shop owners with marketing and inventory management. Njeri and the bottler also get more precise sales data, which are easier to mine for trends and places to cut costs. "My business is all about volume," says Njeri. "When I do volume, I get money in my pocket."

Back in Atlanta, not far from where Coke's phenomenal run began, it's lunchtime at Lenox Square, a shopping mall a short drive from Coca-Cola headquarters. Shoppers park their BMWs below glass office towers and a rooftop hotel pool. They buy perfume, silk ties, and Apple laptops. In the food court, they eat pita wraps and Japanese noodles. Here, the Coke system operates with peak efficiency. When customers ask for a soft drink with their combo meal, chosen from a red menu board, the clerk reaches into a red cooler and hands them a Coke. But the new money in Coke's pocket will be earned by Njeri.

Reefer Sadness

In Northern California, small farmers find the legalization of their business could be the worst thing that ever happened to them
By Sheelah Kolhatkar

To reach Jason's farm you drive south out of the small town of Arcata, in Humboldt County, Calif., and plunge into the forest that gave the region its "Emerald Triangle" nickname. After passing through hilly ranch country and a stretch on a dusty dirt road, a wooden house peeks out of the fruit trees on 150 acres of land, completely off the electrical grid. Jason is in the kitchen, stuffing cannabis leaves into a juicer.

"Everyone around here is involved in some way," says Jason, a professional marijuana grower. What he means is that a large percentage of people in town, and every other town for miles, is either directly or indirectly subsidized by dope, from the young parents cultivating a few seedlings in the backyard to the owner of the sushi restaurant where seemingly unemployed people eat dinner, always paying in cash.

"I think we're in the middle of a boom time," says Jason, clomping over to a leather sofa with his juice. He's in his late 30s and wearing camouflage pants with a small knife clipped to his belt, heavy-duty work boots, and just enough chin scruff to keep him from looking groomed. Despite its rustic accommodations—personal business is conducted in an outhouse down the path—the house bears many signifiers of high household cash flow: gleaming new appliances, lots of products made by Steve Jobs, a Droid satellite phone. He got into the pot business almost by accident. After several years drifting hippie-style through California, Jason fell in love with the pastoral lifestyle and realized that he had to earn money to sustain it, so he became a businessman. He agreed to explain the economics of his trade, provided *Bloomberg Businessweek* withheld his full name.

The 1996 passage of Proposition 215, which legalized the possession and cultivation of marijuana for medical use in California, ushered in a green golden age. The legislation permits use of the drug by anyone with a 215 prescription, which can be dispensed by doctors for ailments ranging from cancer to a stiff neck; the Marijuana Policy Project estimates there are 355,000 patients in California who have been advised to use medical marijuana by a doctor. Selling marijuana for a profit is still illegal under state law, and there is no specific definition of how much a person can legally grow or what constitutes a profit, while all marijuana sales remain prohibited by federal law. The very vagueness of the rules created opportunity: midlevel entrepreneurs such as Jason who were willing to live with the risks and ambiguities of a semi-legitimate market rushed in and thrived, though there are no reliable estimates of how many there are.

Now a new set of variables has thrown the business into even greater uncertainty. On Nov. 2, California will vote on Proposition 19, the "Regulate, Control and Tax Cannabis Act of 2010," a ballot initiative introduced by an Oakland pot enthusiast named Richard Lee that proposes to legalize marijuana for personal use. The new law would permit individuals to possess up to 1 ounce and cultivate 25 square feet worth of plants at private homes, with no medical requirement. Beyond that the initiative's language is murky. Regulation of commercial production and sale of cannabis would be done by counties and municipalities, leaving the mechanics of how it would all work undefined.

One thing seems clear, though, if the measure is adopted:



Harvest time in Mendocino, Calif.

MATHIEU YOUNG

a quasi-black market will be replaced by a much more legal one, and prices for pot are likely to go down. It's impossible to know by how much, but a 2010 Rand study called "Altered State? Assessing How Marijuana Legalization in California Could Influence Marijuana Consumption and Public Budgets" estimates that retail prices could eventually drop by 80 percent. First, suggests Jonathan Caulkins, a public policy professor at Carnegie Mellon University and a co-author of the Rand study, there would be a "honeymoon" period of several years when production would ramp up as California product began to push out inferior Mexican pot across the country. Once that happens, you could have "a real change in industry structure," according to Caulkins. Growers would have to professionalize their operations and become even more industrial-scale to squeeze out smaller margins of profit. In such an environment, people probably won't make the $150,000 or so Jason says he clears every year, and "mom and pop" farmers will be wiped out. Jason is planning ahead. "You wanna go up top and walk through them fields of glory?" he asks. "If you can grow twice as much, you'll make the same amount of money, even if the price is half."

After legalization, you could have a change in industry structure—no more hippies making $150,000 a year

For decades, the Emerald Triangle was sustained by logging and fishing, but both eventually died off. In the 1960s and '70s, hippies and counterculture types fled San Francisco and other cities to get "back to the land," and were drawn to the area for its potential as an agricultural utopia. The ideal was to be dependent on no one: Build your own house, grow your own food, and slap solar panels on the roof. It turned out that big redwood country was almost as well suited to the cultivation of cannabis as Southern France is to Côtes du Rhône grapes. The region's inaccessibility made it suitable for growing in greenhouses, while the climate and exposure were conducive to agriculture. It was easy for people to nestle a few pot plants back behind the tomatoes and bring in a little extra money to pay the property tax bill.

Proposition 215 elevated the trade to a new level, spawning businesses to uphold and profit from it: an aboveground-underground market. Growers hire manual laborers to cultivate, harvest, and trim the crops. Others are brought in to transport the bounty to dispensaries in Los Angeles, San Francisco, and across the state, or to out-of-state middlemen who inject the product into the black market. Doctors write prescriptions authorizing a patient to purchase what they need from a dispensary; lawyers provide defense services; bail bondsmen help people get out of jail. In Arcata, a tidy college town with a population of around 17,000, there are many more shops selling fertilizer and greenhouse supplies than there are people growing orchids. And then there are the arteries the drug proceeds flow through:

booming truck dealerships, organic food markets, and the electronics store.

Humboldt County has a small population base relative to its California neighbors—129,000—so it's easier for the pot industry to have a dominant effect on the local economy, Caulkins points out. At a moment when Americans don't seem to actually make anything anymore, domestic producers have quietly distinguished themselves in the cultivation of high-caliber weed, demand for which has proved to be almost recession-proof. Jobs cultivating, harvesting, and selling the plants can't be sent overseas, and the profits are usually reinvested in the community. Caulkins calculates that anywhere from $1.5 billion to $2 billion worth of marijuana might be sold in California each year. The wholesale price per pound is below $3,000, according to locals familiar with the market.

The question that looms over the growers is whether the economic advantages they've built up can survive a more radical legalization policy, like that being put forth in Prop 19. "One thing that interests me is to what degree large-scale production can lower costs," says Erick Eschker, a professor of macroeconomics and U.S. economic history at Humboldt State University who directs the Humboldt Economic Index, a monthly indicator for the county. "If economies of scale do exist, small operations are going to be at a significant price disadvantage." Humboldt County could also lose the geographical advantage of its remoteness, which makes it ideal for producing an illegal product, as production moves closer to where most of the customers are, in Los Angeles and San Francisco. With taxation and regulation happening at a county or city level, there could also be a race to whichever area has the friendliest rules.

The new proposition was initiated by Richard Lee, a marijuana entrepreneur who founded Oakland's Oaksterdam University, the first college for training students in cannabis commerce, and who helped push the city of Oakland to start taxing marijuana dispensaries. According to a recent poll by the Public Policy Institute of California, voters now oppose Prop 19 by 46% to 44%, after favoring it slightly in September. Last year, California Governor Arnold Schwarzenegger announced that it was "time for a debate" on legalizing marijuana (although he recently came out against Proposition 19, calling it a "flawed initiative"). Shifting public opinion has already led 14 states, plus Washington, to approve some form of legalization for medical purposes.

The cause has found interesting supporters in the business world: Two co-founders of Facebook, Sean Parker and Dustin Moskovitz, donated $100,000 and $70,000 respectively, to backers of Prop 19 this fall, according to campaign filings, and, in a *Wall Street Journal* opinion piece, investor George Soros announced that he was backing the initiative. The State Board of Equalization, which collects sales, property, and other taxes such as those on tobacco and alcohol, issued a report estimating that if marijuana were taxed at $50 per ounce it could lead to $1.4 billion in new revenue for California, which has been suffering from a $19 billion budget deficit. Jeffrey Miron, a Harvard economist, estimates that if the drug were taxed at rates similar to alcohol and tobacco it could create $8.7 billion in national tax revenue.

Different parts of the cannabis plant contain varying levels of tetrahydrocannabinol, or THC, the main psychoactive ingredient. The highest concentrations are found in unfertilized buds of the female plant, which yield the most expensive strains. Much of what is grown in Humboldt County is of this type, and the price (followed by all the grades below) has been dropping for the last several years. As the price slid, more people rushed into growing, farms became larger, and the market became glutted. It also attracted what some locals describe as outsiders and criminal elements, including members of drug cartels. Home invasions are more common than they used to be, and there are reports of shootings—six so far this year in Humboldt County, up from one two years ago, according to Mike Downey, the incoming sheriff. Many houses in Arcata have been taken over by indoor marijuana-growing outfits. "I've been involved in the drug wars for 25 years," says Downey. "My personal view? It's not worth it. We've spent a lot of money and it hasn't made a difference. It's been a frustrating issue. A lot of people have been killed. We've got bodies in these hills we've never found."

"I'm probably selling more land than anyone else in the country," Charlie Tripodi says as he bumps along the highway in his mud-crusted Dodge Ram. Tripodi says he's sold $21 million worth since January, to be precise. "We missed a bit of the bullet of the real estate market. No real estate agents are out peddling hot dogs." And why might that be? "The marijuana industry," Tripodi says without hesitating. "That's obvious. It definitely kept us afloat."

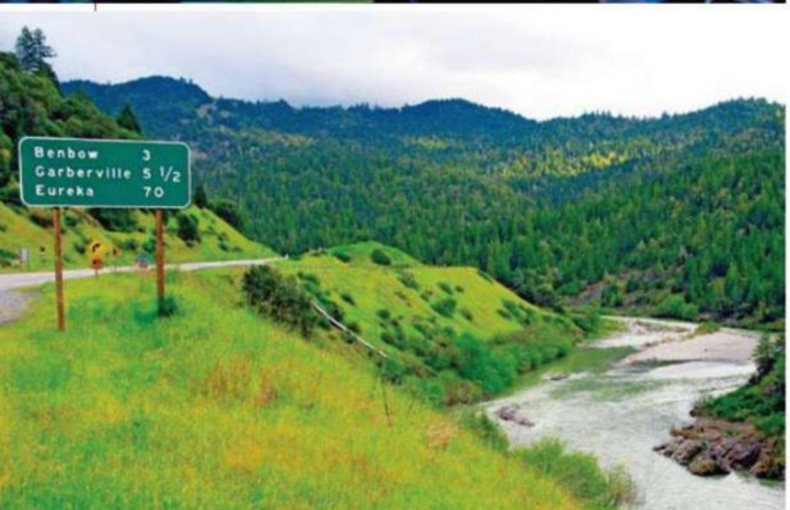
Tripodi, a Realtor with Coldwell Banker who calls himself "The Land Man," specializes in selling remote parcels of former timberland to buyers who want to farm or live the so-called

"We missed the bullet of the real estate market," says Tripodi. "The marijuana industry definitely kept us afloat."

Righteous Capitalism: Four Popular Strains

Grand Daddy Purple	OG Kush	Purple Haze	Redwood Kush
			





Learning the cannabis trade in Oakland, Calif.; the mighty redwoods of Humboldt County

OPPOSITE PAGE: COURTESY ORANGE COUNTY'S PATIENT CARE (4); FROM TOP: EROS HOAGLAND/REDUX; ALEXANDRIA SAGE/REUTERS

rural-residential lifestyle. A former white-water rafting guide, he has chin-length brown hair and a boyish cowlick. He spends his days cruising around in his truck with laminated aerial maps on the front seat and a fortified laptop on the console. Tripodi says that land prices in Humboldt have gone nowhere but up. "In the last eight years, the price for 40 acres has gone from $59,000 to $150,000," he says.

A good portion of the demand comes from people trying to diversify their assets. Over clam chowder at the Waterfront Cafe Oyster Bar in Eureka, Calif., the sister city to Arcata, which has a brand new waterfront and the lively air of a rich little boomtown, Tripodi slips into his sales pitch: "We're facing a devaluation of the currency," he says. "If there's another terrorist attack, people are going to be fleeing here. It's a safe haven. ... Where are you going to put your money? Land has much more of an intrinsic value."

Of course, the demand has as much to do with high times as end times. "I hate to emphasize that," he says, but "hopefully most of them grow under the guidelines of 215; some of them do, some of them don't. I don't ask questions, it's none of my business." During the last few years, he's seen much more of this second type of buyer passing through town. "It's the end of the gold rush. People will be clamoring to be a part of it until the last nugget is taken out of the river."

On a quiet side street, just beyond Arcata's main square, sits a tidy white building that could pass for an insurance office. The Humboldt Patient Resource Center is a dispensary where people with 215 cards can sidle up to the counter and order one of the pot strains–Redwood Kush, and so on–that are on view in little clear plastic jars. If the clients don't feel like smoking, as many patients don't, according to Mariellen Jurkovich, the proprietress, they can buy one of the goodies in the display case: ganja pecan pie, "special" peanut butter truffle cups, and rainbow Rice Krispie treats–"Consume slowly!" the package warns. Chelsea, the perky blonde nutritionist, sits at a table by the door, offering paper cups of sunflower seeds and tamari roasted almonds.

Jurkovich has been here 11 years and is just the sort of small business owner who could see her world changed by the passage of the new bill, but she doesn't know if it would be for better or worse. "When you run a business, you need to know the rules. Here the rules are constantly changing," she says, sounding like a beleaguered member of the Chamber of Commerce.

Jason isn't sure how the shifting legal landscape will affect his own small enterprise, but he tries to be optimistic. As he finishes his carrot-and-cannabis cocktail and moves on to beer, he breaks down his business: He spends around $50,000 a year on labor, he estimates, and thousands more on "bourgie" organic nutrients that he orders from Chile and other far-flung locales to make his plants more high-end. "I just put an 18-wheeler's worth of soil in the ground," he adds, which amounted to about $12,000. There's a lot of spray and fertilizer. "The plants are pretty water-hungry," he explains.

At harvest time, which starts in October, he hires trimmers to cut the buds off plants for $200 a pound. "Somehow I tapped into this endless lesbian crew. They come out from North Carolina or Idaho, jumping trains the whole way," he says. "One year I had a CPA from Paris." He hires a cook to feed them and provides music, wine, and, of course, plenty to smoke. "It's a party," he says, bouncing up and down and making Edward Scissorhands motions with his fingers. His plots are scattered around the forest along with a collection of greenhouses that are visible from overhead but, he hopes, aren't numerous enough to invite a raid.

Jason says he clears $150,000 to $200,000 a year in profit from the land surrounding his house, depending on how good the crop is. He earns more from other plots he owns nearby. He doesn't pay taxes on the income because he doesn't file a return ("I don't lie about it. That's when you get in trouble"). Spending all that cash in the middle of nowhere can be a challenge. He and his wife eat all-organic, and he's got a few trucks to play with as well as a $28,000 Kubota backhoe. Some of the money is "seasoned" slowly into a bank account, so as not to draw attention.

Inside one of Jason's greenhouses, eight 10-foot-tall plants salute the sky, like big, smelly Christmas trees. Each is encased by a metal hoop of the sort used to grow tomatoes, and hoses snake along the floor to provide water and nutrients. He says the big strains this year are called "Chemdog," and "Green Crack." Jason is also working on his own concoction, called "Triple X." "Here, squeeze this," he says, indicating one of the spongy buds, about the size of a golf ball. It leaves a sticky, pungent residue. "Ha! You can't go back to New York with that!" he smirks.

The conditions surrounding Jason's industry may be about to change dramatically, but he's determined not to worry about it until it actually happens. For now, life is almost too easy. Occasionally he even feels nostalgic for the bad old days, when the feds were focused on crushing the domestic pot trade, before they decided to spend most of their energy on crystal meth instead. Back then, the choppers were always roaring overhead. Sometimes he had to dive into the mud with a rifle. "It used to be sexy," Jason says, half joking. "Now it's just boring." B

Robert Cabana, director of the Kennedy Space Center, in front of the Shuttle Discovery as it awaits one final flight

Lost in Space

By Paul M. Barrett
Photographs by Stefan Ruiz

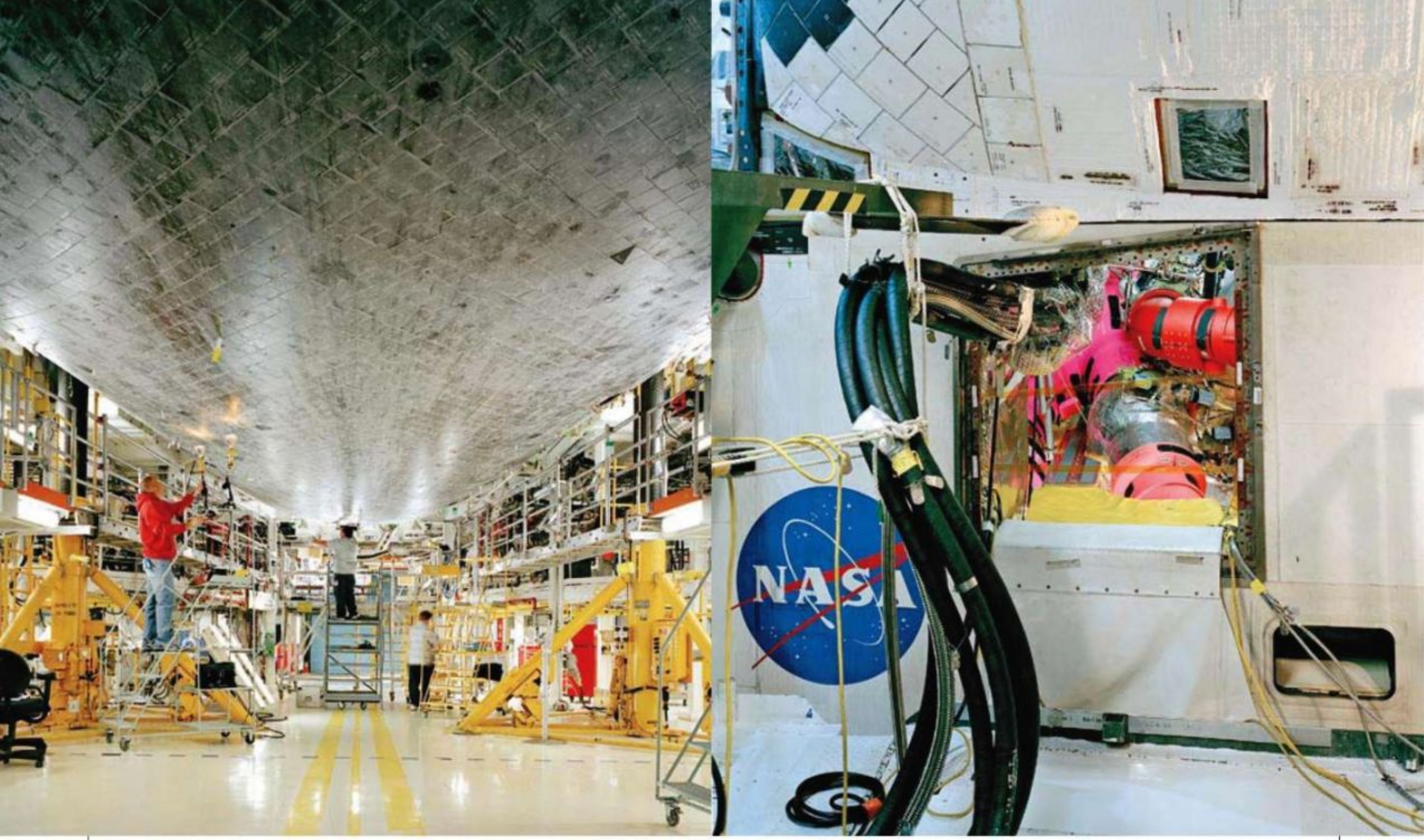
After 30 years, NASA is ending the Space Shuttle program. What happens when you outsource the astronaut business?

It's 9 a.m., and 100 employees of the Kennedy Space Center are lining up for the chance to do some freelance work. Director Michael Bay will use the famed NASA facility–origin of the Apollo moon shots and home of the flare-winged Space Shuttle–as a backdrop for *Transformers 3*, the finale of his alien robot war trilogy, a Hollywood tip-of-the-hat to a place that once launched the future. Bay needs extras–and Kennedy has no shortage.

The facility's main mission, launching Space Shuttles, is about to end. Eight thousand engineers, technicians, and other employees are losing their jobs. Nearby towns that were built around NASA's programs–Cape Canaveral, Cocoa Beach, Titusville–are already in a defensive crouch, like wobbly boxers waiting for a knockout punch.

NASA management is holding "morale events" to elevate spirits. A few days before the casting call, agency officials eased security rules to allow employees' families to witness what is expected to be the final "rollout" of the orbiter Discovery. In a majestic evening ceremony, the Shuttle was transported from the 52-story Vehicle Assembly





Preparing for a final journey: the Space Shuttle Atlantis, from beneath (left), and a side view

Building to the launchpad. Bathed in xenon spotlights, the white spaceship, attached to its twin solid rocket boosters and orange external fuel tank, crept 3.4 miles on the back of an enormous tractor called the Crawler. An armed helicopter and a nearly full moon hovered overhead. Husbands and wives and children stood in a roped-off parking lot next to minivans, clapping and whistling. Some wept.

In February, the Obama Administration abruptly canceled an over-budget program called Constellation that was supposed to take Americans back to the moon for the first time since 1972—and then on to Mars. For 30 years, NASA has flown the Shuttle, built and maintained the International Space Station, and overseen unmanned scientific probes. But no one seems certain where Americans should go next in space. Implicitly acknowledging NASA's lack of direction, the White House has instructed the agency to take a deep breath, marshal resources, and chart a new course. Routine trips to what is known as low earth orbit—the Space Shuttle's traditional responsibility—are supposed to be outsourced to private industry. Trying to protect jobs and existing contracts, Congress has slowed the Obama reform initiative without entirely stopping it. That leaves NASA trapped in what James E. Ball, an agency program manager in Florida, calls "a period of sustained ambiguity." This much is clear: The Shuttle will fly for the last time next year, and NASA has no new manned government rockets ready to go anytime soon. For five years, or maybe more, any American astronaut heading to the heavens will have to get there by renting a seat in a Russian Soyuz capsule or one of the several corporate-owned spacecraft now in development.

Rather than use the end of the three-decade Shuttle program to streamline NASA and sharply articulate new goals for space exploration in a way that would command public attention, much of the political leadership in Washington appears to be ignoring the issue. Communities along Florida's Space Coast, built on the optimism and industry of the space program, are in economic peril. The area's 12 percent unemployment rate—2½ points higher than the national average—is expected to rise to 15 percent over the next year, mostly as a result of the space industry contraction. Meanwhile, as America dithers, Russia, China, India, and other countries are expanding their shares of the space market.

Seasonal surf shacks can't make up for the business that will disappear when the Shuttle program ends

Travis T. Thompson sits in an air-conditioned conference room talking about the end of the Shuttle program. A compact man with a handlebar moustache, he heads the orbiter closeout crew; he's the guy who shakes hands with each astronaut just before they lift off. "You come back and see me now," he tells them. Thompson, 52, speaks of his work with quiet pride. "What I do," he says, "is put astronauts in spaceships and close the hatch."

After three final flights—one scheduled for Nov. 1, two in 2011—the trio of tile-skinned orbiters will be cleaned, stripped of classified gear, and sent to museums. Thompson's job will end. The customized 747s that piggyback Shuttles to Florida after California landings will be retrofitted for less exotic cargo. The mighty Crawler, which ferried Shuttles to the launchpad, will be reduced to hauling more terrestrial freight around the Space Center.





Orbiters are attached to their rockets in the 52-story Vehicle Assembly Building; Atlantis awaits its last payload

The weathered beach towns and small inland cities where space workers live and patronize local businesses were already hit hard by the recession, and now things will get worse. The Kennedy head count—civil servants and contractors—will fall from 15,000 in 2009 to 7,000 or lower. Nearly all the cuts will affect private sector workers; the 2,100 direct NASA employees currently are not targeted for layoffs. Overall, the Space Center workforce earns an average annual wage of $75,000, compared with $47,000 "outside of the gate." Nationally, the loss of space jobs in Florida, California, Louisiana, Texas, Utah, and other states could approach that of Kennedy.

In Cocoa Beach, south of the Space Center, the Durango Steakhouse and a large Chinese restaurant have shut their doors in recent weeks. Strip malls have been emptied of their manicure salons and home furnishing shops. Tourism remains, but the seasonal surf shacks and burger joints can't make up for the lost economic activity.

One key question is whether new high-tech employers will step in and hire laid-off NASA contractors

"I've seen this picture before," says Thompson, tugging on his NASA baseball cap. He works for United Space Alliance, the main Shuttle operator, which is jointly owned by Boeing and Lockheed Martin. As a young man, he lived through the local slump that accompanied the end of the Apollo program in 1975. In an earlier period of indecision and funding debates, NASA spent the late 1970s scrambling for sufficient political support to get the Shuttle built and aloft. Thompson's hometown, Titusville, "became a ghost town after Apollo," he says. "People were walking away from houses, leaving the keys under the mat." Shuttles didn't begin to fly until 1981, after which Kennedy and its environs enjoyed a period of relative economic stability. Now the highways are lined with billboards that say: "Changing Jobs?" They advertise financial advice for people who are unsure of what to do with their uprooted 401(k) accounts.

Thompson has worked at Kennedy for 31 years. He knows he should be looking for a new career. So far, he hasn't summoned the will. He distracts himself from the coming bad news by focusing on safely launching the final Shuttles. Even as résumé workshops and job fairs have proliferated, many in the area are struggling to imagine life after the Shuttle, says Lisa Rice, president of Brevard Workforce, a county agency. She has placed around 100 ex-Shuttle workers out of the 1,900 let go since last year.

Opportunities could still arise from the turmoil. Once Congress and the White House clarify short-term funding issues, Boeing, Lockheed, and smaller rivals such as Elon Musk's Space Exploration Technologies could jostle for pieces of an increasingly privatized market. Frank DiBello, 67, a space industry consultant and investor, has come out of retirement to lead a state-sponsored economic diversification initiative, with the goal of bringing tech-based businesses to Florida that could scoop up some of the laid-off NASA workforce.

Much will have to happen before the Space Coast realizes DiBello's shiny aspirations. "We are going to go through a lot of hurt in regard to layoffs of a highly skilled workforce that Florida needs to ensure its future," he says.

Robert D. Cabana, the director of the Kennedy Space Center, visited his future workplace for the first time in 1970 as a member of the U.S. Naval Academy's Physics Honor Society. The brainy


SA-209



midshipman gaped at a Saturn V rocket, the kind that took Apollo astronauts to the moon. "That was our future and our pride at that time," Cabana recalls.

After graduation, he flew A-6 Intruders in the U.S. Marine Corps, became a test pilot and colonel, and, on his second try, was accepted in 1985 into the elite astronaut program. He flew on four Shuttle missions, including the one in 1998 that inaugurated the assembly of the International Space Station. Today, Cabana, 61, is in charge of thinning the ranks of employees in the hangars and labs and control rooms scattered across 140,000 acres of alligator-infested swamp and scrub.

Wiry and intense, Cabana seems surprised, and maybe insulted, when asked to explain the Space Shuttle's value. "It's just a phenomenal vehicle," he answers. With it, NASA took the lead in creating the space station, where humans have learned how to survive for months in micro-gravity and do biomedical and astronomical research. The Shuttle launched and serviced the Hubble telescope, which revolutionized our understanding of the cosmos. The craft has also facilitated robotic probes of the earth's climate, Jupiter's atmosphere, and the sun's radiation. Its science contributes to the ongoing search for distant planets that support life. Closer to home, its spinoffs such as advanced home insulation and biodegradable lubricants have improved everyday life.

The frustrating truth is that relatively few Americans care about the scientific missions that came after Apollo's giant leaps for mankind. Since the last trip to the moon 38 years ago, NASA, for all the skill and bravery of its employees, has given the impression of an organization on a space walk to nowhere. A succession of agency leaders have grasped at grandiose proposals—go back to the moon, on to asteroids and Mars—that have fallen through for lack of support on Capitol Hill. To justify an annual budget now in the $19 billion range, the agency has kept the Shuttle flying, no small feat, given its aging late-'70s technology. Even a Shuttle enthusiast like Cabana has to admit—and does, reluctantly—that the venerable craft has proven with more than sufficient repetition that man can achieve low earth orbit.

In 2004, the space agency commissioned a consumer study by the

A vintage Saturn in Kennedy's Rocket Garden: "In the mind of the public," a research study says, "human exploration of space is NASA's brand"



Thompson, the last man to shake the hand of each astronaut before launch, expects to lose his job in the next year

Center for Cultural Studies & Analysis in Philadelphia. "Despite a strong emotional attachment to NASA," the think tank reported, "many of the agency's achievements since the end of the Apollo program have failed to resonate, or even register, with the public." Why? "In the mind of the public," the research showed, "human exploration of space is NASA's brand." The brand having badly eroded, the Bush Administration announced in 2004 that the Shuttle program would end this decade. Outside NASA and aerospace contracting circles, few people seemed to notice. "The space program," says the business veteran DiBello, "has become too much of a federal jobs program."

DiBello earned a math degree at Villanova University, advised the Defense Dept. on missile performance, and consulted with corporations that manufacture and service rockets while working for KPMG Peat Marwick for 25 years. In the 1990s he launched SpaceVest, a venture capital firm in northern Virginia. Throughout, he watched as politicians and bureaucrats spread NASA resources around the country: launches at Kennedy, mission control at the Johnson Space Center in Houston, propulsion engineering in Huntsville, Ala., rocket testing in southern Mississippi, management of astronomy missions at the Goddard Space Flight Center in Greenbelt, Md.

"Everyone gets a piece of the action," says DiBello, who has deep-set owlish eyes and a Philadelphia-accented baritone. "The program gets pulled in different directions based on which senator or congressman wants business for his or her district." As a result, he adds with a sigh, "We have been foundering from the moment we set foot on the moon."

To replace the Shuttle, the Bush Administration said the Constellation program would lead to a manned Mars landing. In a speech a year after the lethal explosion of the Space Shuttle Columbia, Bush promised a rededication to bold voyaging. "We choose to explore space," he said, "because doing so improves our lives and lifts our national spirit." The retirement of the Shuttle was supposed to free up money for a new family of long-distance, heavy-lift rockets.

The Bush Administration's proposed funding for the program was "grossly inadequate," according to DiBello. The Shuttle flies for about $3 billion a year. An optimistic bill to get to Mars would come to half a trillion dollars over time. The Bush Administration suggested that, somehow, Constellation could get off the ground within NASA's existing inflation-adjusted budget. By 2009, Constellation was already way over budget and far behind schedule. The Obama White House decided to cut the losses at about $10 billion. A 355-foot, $300 million steel tower that would have launched Constellation's rockets now stands without an immediate purpose at the Kennedy Space Center.

The latest White House plan has several components—and just as many risks. Private sector corporations, rather than the government, are supposed to provide transportation of cargo and crew to the Space Station. Contractors such Space Exploration Technologies, started in 2002 by Musk, the founder of PayPal, are testing proprietary rockets for this purpose. In June, Musk's company staged a successful inaugural flight of its Falcon 9 launch vehicle from the Cape Canaveral Air Force Station adjacent to the Kennedy complex.

In theory, the outsourcing of low earth orbit will make available resources for NASA to focus on farther-reaching manned exploration. How this strategy will be implemented—and at what cost over what period of time—remains unclear. The $58 billion, three-year NASA authorization legislation passed by the House on Sept. 30, and earlier by the Senate, endorses Obama's mandate to use taxpayer money to spur commercial rocket development. But it cuts back on the amount of money devoted to that goal. The legislation, which Obama signed in October, instructs NASA to move ahead with a new spacecraft that could land on an asteroid by 2025. But in a nod to Boeing, Lockheed Martin, and lawmakers representing states with existing Shuttle operations, Congress also exhorts the space agency to rely as much as possible on existing technology and personnel.

A new round of legislative jockeying will commence when congressional

appropriations committees—the panels that cut federal checks—turn their attention to the space program after the election. "My fear is that Congress will continue to set ambitious but vague goals without giving NASA the resources needed to accomplish them," says DiBello.

One assumption built into the Obama plan is that private industry will get routine space work done much less expensively than the government. But given that corporations already do a lot of this sort of labor under contracts with NASA, the premise raises questions about how they will suddenly become more cost-effective, especially without sacrificing safety.

Patty Stratton, a senior manager with United Space Alliance, the contractor jointly owned by Boeing and Lockheed Martin that operates much of the Shuttle program at Kennedy, offers the metaphor of a lightbulb. "When you come into a room, you flip the light switch, and the light goes on. You replace the bulb from time to time," she says. "With the Shuttle, we put in a new bulb every single time. It gets expensive." Contractors claim they can operate faster and leaner once they're freed of NASA bureaucracy.

Following similar reasoning, the Pentagon and the State Dept. in recent years have outsourced large portions of logistical, infrastructure, and even security work in Iraq, Afghanistan, and other war zones. The results have been disappointing, with government auditors having identified billions of dollars in corporate waste, fraud, and other misconduct.

The comparison NASA and its contractors prefer is that of the postal service and commercial airlines. In the 1920s, when air travel was still new, the federal government allowed nascent airlines to bid on mail delivery contracts. Washington's backing allowed the airlines to expand into cargo and passenger service. Costs came down as they were spread across more profit-generating businesses. The idea is that as space travel becomes more common, it will foster new commercial research and adventure tourism. Corporations will be able to defray costs and reduce bills for taxpayers.

The potential flaw in this argument is that, for the foreseeable future, there just isn't that much that absolutely has to be done in space. Beyond launching and maintaining communications satellites, where is the profit-driven space market? How many tourists, apart from a few millionaires, really want to spend their vacations in stomach-turning micro-gravity? DiBello insists that the greatest potential is in fields such as medical research, and in technologies yet to be discovered. Space activity has produced valuable inventions such as global positioning devices that have had lucrative commercial applications.

Whether or not privatization saves money, it has already changed attitudes and reversed roles at the Kennedy Space Center. NASA officials for the first time are pitching the center's capabilities—and its potential improvement—to audiences of corporate executives who will decide where to locate new commercial space operations. In September, Boeing formally announced that it would get into the space tourism and astronaut transport business, with flights scheduled to start as early as 2015. What site will host those launches hasn't been determined, but the Kennedy complex is a leading contender.

Avera Motors, a 2009 spinoff from Mainstream Engineering, a Florida-based developer of energy conversion products, also hopes to capitalize on the ferment at Kennedy. The company occupies an 11,000-square-foot facility in Brevard County where its 20-person team has fabricated a prototype of a low-emission, high-mileage sports car it plans to sell in late 2012. In addition to privately raised seed money, Avera's chief executive officer, 27-year-old R.J. Scaringe, has received $2.5 million in state financing, some of it secured by DiBello. Scaringe, who has a PhD in mechanical engineering from Massachusetts Institute of Technology, plans to step up hiring early next year. If his car finds buyers, he foresees employing 1,100 people by 2015—a bold goal. "The skilled technical workers becoming available because of the Shuttle layoffs," he says, "are perfect for us."

Rob Schneider, 44, cannot wait around for Avera to start hiring. The heavy machinery mechanic employed by United Space Alliance has logged 10 years fixing Kennedy's forklifts and cranes. He expects to lose his position within a year and wants to sell his Brevard County house before the real estate market dips further. His wife, Sherry, has already moved to Columbia, S.C., where she found work as an elementary school principal. One of their two sons moved with her; the other is finishing high school in Brevard. Schneider talks over coffee and donuts in the local lodge of the International Association of Machinists and Aerospace Workers, where he is a member. Looking out from the wall, a yellowed poster of the space center's namesake, John F. Kennedy, states: "The work you are doing is vital to our national security."

Boeing says it will compete in the space tourism and astronaut transport business, with launches beginning as early as 2015

Schneider tries to sound upbeat. "We got it good compared to a lot of people, because my wife already found a new job," he says. He is interviewing for railroad work in South Carolina. The best scenario he envisions would involve taking a 20 percent pay cut.

"The tradition around space is what I'm worried will go away," says Roberta Wyrick, 56. A United Space employee, she oversees orbiter testing and is integrally involved with launches. In her spare time, she takes Boy and Girl Scouts on tours. Wyrick has a math degree from the University of Central Florida and 31 years of experience at Kennedy. She has heard that there may be jobs at NASA's Wallops Flight Facility on the eastern shore of Virginia, where smaller research launches take place, but she has not formally inquired yet. "I've got a house here, and I thought I would retire from Kennedy," she says. "I launch Shuttles. ... When I see it on the pad, getting ready, my heart just starts beating faster."

Weeks after my visit to the Space Center, the director, Bob Cabana, calls out of the blue. "NASA," he wants to remind me, "is not going away by any means." But actually what prompted him to reach out, he explains, was a sense of loss. "I just said goodbye to 900 good people for the last time," he says of the latest stage of layoffs. "I can't put into words what that feels like." There is a long pause. Then the former Marine test pilot and astronaut reiterates his invitation to come back down for one of the last Shuttle launches: "It's just a phenomenal thing to see," he says. "Phenomenal." B



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Nicholas J. Bruyer, CEO, First Federal Coin Corp.
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The race for the next billion-dollar ingredient has led to ... Canada? Page 78

Superfood & Phones & College Riots & Glenn Beck

Etc.



The secret behind his $32 million paycheck. Page 86



How one man capitalized on a workforce's fears–and parlayed them into a touchy-feely empire. *By Spencer Morgan*

Illustration by Andy Smith

TOP: BROOKS KRAFT/CORBIS

Etc. Office Bullying

With his goatee, Darth Vader-sized bald head, and an NFL lineman's build, Gary Namie doesn't look like someone to mess with. And in his case, appearances do not deceive. Namie has carved out a tough niche—he's the guy who bullies the office bullies. Two weeks ago in San Francisco he and his wife, Ruth, were set to give a keynote address at a seminar hosted by a group called California Healthy Workplace Advocates. They were scheduled for a similar event the next day in Sacramento. At $10,000 per appearance, the Namies are becoming the Sarah and Todd Palin of the rapidly expanding office bullying universe—a universe that owes its existence, in large part, to the Namies.

In 1995, Ruth Namie, then a clinical physician at a health maintenance organization, found herself in the crosshairs of a vicious female superior named Sheila. Namie mentions Sheila every time he tells their story, since, he says, she "tormented," "traumatized," and "tore apart" Ruth's confidence, using the classic bullying techniques like berating her skill in front of co-workers, spreading rumors, disrupting her work, and screaming at her. After consulting an attorney, the Namies discovered there was little legal recourse for non-discriminatory bullying. By 1997, the passage of such legislation became Namie's white whale. As he says, Sheila "messed with the wrong guy," even though, technically, she messed with his wife.

More than a decade later, the former University of Southern California management professor has become the Erin Brockovich for workers tired of their boss's hysteria. And in the American worker, Namie has the perfect client. According to a survey conducted by business research association the Conference Board, employee satisfaction is sinking. Last year, only 45 percent of workers claimed to be satisfied with their jobs—a significant decrease from 61 percent in 1987. Pollster John Zogby reported in August that 34 percent of American workers said they'd been bullied at the office. The data reinforce 2009 University of Phoenix findings that the recession has given bullies an excuse to mistreat co-workers.

In a classic chicken-and-egg twist, the purported rise of the office bully has turned anti-bullying experts into well-paid gurus. Valerie Cade, an anti-bullying coach in Ontario, gives 40 speeches a year for up to $7,500 apiece. A rise in demand, she says, has forced her to decline multiple invitations. Calgary-based Anton Hout, the founder of Overcomebullying.org, offers a selection of anti-bullying-inspired posters and fine art prints. The site also hawks his most recent book, the artfully titled *What Every Target of Workplace Bullying Needs to Know*. Fellow Canadian Chris Hinkle, the creator of Firm Foundations, offers a self-service package for $350.

Still, Namie occupies a rarefied position in the anti-bullying hierarchy. The co-founder of the Bellingham (Wash.)-based Workplace Bullying Institute, he's hoping to leave his fingerprints on history. With his help, on Oct. 19, El Paso, Tex., declared the first ever Freedom From Workplace Bullies Week, which was celebrated with events in four states and an anti-bullying conference—entitled Powerless to Powerful—in anti-bullying hotbed, Saskatchewan.

The big week was more than a decade in the making. After Ruth Namie's bullying experience, the couple founded the Campaign Against Workplace Bullying in San Francisco in 1998. Two years later, they helped establish the inaugural U.S. Hostile Workplace Survey. The poll coincided with the release of their book, *The Bully at Work*, which has since sold 80,000 copies and remains the magnum opus of the genre. In 2003 they renamed their group the more important-sounding Workplace Bullying and Trauma Institute, later boiled settling on the Workplace Bullying Institute (WBI), which still sounds pretty important. In 2008, they took the bold step of establishing WBI University, the first college of its kind, in Bellingham. The university's three-day seminars cost $4,600 for individuals and $6,000 for corporate representatives. Next semester is already sold out.

Namie focuses his energy these days on "interventions"—which require on-site bullying assessments and anti-bullying training—for companies, unions, and universities at $45,000 a pop. While he once landed three such gigs per year, he says, he now averages three per month. On 10 or so other occasions each month, Namie explains to an audience of business owners or executives how bullies are eroding their organizations from within, under-

At $10,000 per speech, the Namies are the Palins of the anti-bullying movement

Raging Bullies

The rise of the anti-bullying movement is another example of life imitating art. Work bullies have screened well in Hollywood for decades. —*Spencer Bailey*

Blake



▶ *Glengarry Glen Ross* (1992)
Box Office: $10,725,228

Blake (Alec Baldwin), a real estate big shot, flaunts his top spot on the office totem pole. "You drove a Hyundai to get here tonight," he tells a struggling colleague. "I drove an $80,000 BMW." Dangling a pair of brass balls by his crotch, Blake instructs the men to get their own.

Buddy Ackerman



▶ *Swimming with Sharks* (1995)
Box Office: $382,928

On his assistant's first day, movie mogul Buddy Ackerman (Kevin Spacey) explains the rules: "What you think means nothing. What you feel means nothing. You are here for me. You are here to protect my interests and serve my needs." A cult classic among aspiring agents.

DATA: BOX OFFICE MOJO (DOMESTIC GROSS ONLY)

John Milton



▶ *The Devil's Advocate* (1997)
Box Office: $60,944,660

While many bosses act like demons, John Milton (Al Pacino) is the devil himself–literally. He's also the head of a prestigious New York City law firm that reels in bright-eyed attorney Kevin Lomax (Keanu Reeves). Unintended comic relief occurs when Milton's office turns into a firey hellhole.

Bill Lumbergh



▶ *Office Space* (1999)
Box Office: $10,827,810

The supervisor at a software company, Bill Lumbergh (Gary Cole) is a passive-aggressive micromanager who often asks employees to work weekends. Worse, he wears a belt with heinous suspenders. Most irksome, he drives a Porsche 911 with the vanity plate: "MY PRSHE."

Miranda Priestly



▶ *The Devil Wears Prada* (2006)
Box Office: $124,740,460

The queen of bad bosses, Miranda Priestly (Meryl Streep) is high-strung, demanding, and loosely based on *Vogue* editor Anna Wintour. Leave it to Streep to turn the stereotype into a soft-spoken, three-dimensional, sometimes even empathetic character: the anti-bully's bully.

cutting capacity and destroying lives. It's not easy to identify a bully in your midst, he warns. It takes a professional to spot, as his literature states, "the overly ambitious snakes willing to hurt others."

With more than 900 media appearances under his belt, Namie has successfully established himself as the main conduit for the anti-bullying business. In the last year and a half, the WBI has added three employees, not including an in-house therapist who mans the crisis hotline. Such success has not gone unnoticed. According to Matthew Holt, vice-president and publisher of John Wiley & Sons, between 20 and 25 business books on workplace bullying were published in the last two years. Next year will see the release of *Murder by Proxy,* a documentary that focuses on the conditions that make workers go postal. The film is following the lead of New York independent filmmaker Beverly Peterson, a former bullying victim who devoted herself to telling others' stories. Her ongoing Web series, *There Oughta Be a Law,* debuted to raves at the 2008 International Association on Bullying and Harassment in the Workplace conference in Cardiff, Wales. "It was like my Sundance," Peterson says.

Despite the surge in his business, Namie remains intent on spearheading anti-bullying legislation. Along with Boston-based Suffolk University Law School professor David Yamada, he presides over a small army of coordinators in 33 states–so-called Healthy Workplace Advocates, many of whom are WBI University alumni. So far 17 "Healthy Workplace" bullying bills have been introduced across the country. Namie and Yamada expect to cross the "20-state barrier" next year. In preparation, Yamada recenly held a Freedom Week conference in Boston to strategize for the 2011 legislative season.

According to Namie, it takes a pro to spot "overly ambitious snakes"

The bills, which seek to offer legal options for bullied employees, have triggered opposition from numerous business associations who fear the potential for future worker litigation. However, it's nothing compared to the clash taking place within the anti-bullying industry itself. "I will say there are several people who want all anti-bullying related activity to go through them," says filmmaker Peterson. The anti-bullying industry had a contentious moment in August, after Kevin Morrissey, a 52-year-old managing editor at the *Virginia Quarterly Review,* took his own life amid allegations of psychological abuse by Ted Genoways, the magazine's top editor. (Genoways denies the allegations.) The suicide prompted soul-searching in the publishing world and finger-pointing in the anti-bullying one. In April 2009, Valerie Cade was asked to speak at the University of Virginia, which operates *VQR*. During the following year she served as a consultant to the school. Namie is still stinging from not landing the gig. "They should have had our damn program. The guy wouldn't have killed himself," he says disturbingly.

"I would describe what Gary is doing as bullying," says Cade, noting that Namie has repeatedly disparaged her work when discussing the tragedy. (The University of Virginia declined to comment on the matter.) However, bygones are bygones when people are willing to pay thousands to hear you speak. "I'll just take it as a compliment," Namie says of his growing competitors. "We've created the field in a way that could be lucrative." Ⓑ

ALL IMAGES: EVERETT COLLECTION

At the Richardson Centre in Manitoba, finding the next great functional food is big business

Frontiers of Superfood

Inside a Canadian university, the hunt is on for the next açai berry. *By David Sax*

When people think of superfoods—such as pomegranate or açai berry, which claim significant health benefits—they may picture intrepid explorers foraging in remote South American rain forests. Here's what they don't usually think of: Canada. Although it's generally considered the breeding ground for lumber, hockey players, and Justin Bieber, Canada is now staking its claim as a capital of next-generation functional foodstuffs, as health-promoting substances are known in the food industry. On the geese-plagued campus of the University of Manitoba, outside Winnipeg, academia and Big Food are experimenting with what they hope will be the culinary world's Next Big Thing: barley.

Yup, barley. Manitoba is one of many commodity-driven economies around the world trying to move its resources up the value chain. "The province was sick of seeing commodities slapped into boxcars and shipped out for pennies of margin on every pound," says Peter J.H. Jones, the director of the University of Manitoba's Richardson Centre for Functional Foods and Nutraceuticals. So in 2006, Winnipeg-based agribusiness Richardson International—with additional funding from food processing monolith Cargill and corn syrup giant Archer Daniels Midland—joined the University of Manitoba and the provincial government to establish the $27 million research institute.

The Richardson Centre, which has its own grain mills as well as countertops made from pressed hemp seed, is currently exploring potential uses for beta-glucans, a molecule found in barley, among other myriad superingredients. Studies such as one conducted by the *European Journal of Clinical Nutrition* have suggested that beta-glucans can have a positive effect on the immune, cardiovascular, and digestive systems. The molecules have also been hailed for their virus-fighting capabilities and held up as a possible cancer treatment. Nancy Ames, a government research scientist at the Richardson Centre, hopes beta-glucan will soon become as familiar a word as



Extracting the male parts of a wheat seed head



At Richardson, every food product is tested and served in precise portions



Scientists recreate the environment found in the human stomach

antioxidant. If that happens, then barley from the Canadian prairies may exude the same supermarket sex appeal as açai berries from the Amazon.

In a windowless test kitchen at the Richardson Centre, Ames tests beta-glucan-infused tortillas by evaluating their elasticity, strength, and taste (gummy, but not that bad). Other Richardson researchers are testing different wheat fibers, canola oil blends, plant sterols (good cholesterol derived from plants), and other ingredients for their potential health benefits and commercial potential. Are they on the brink of discovering the next starfruit? "All barley originated in Tibet," Ames says. "What could be more exotic than that?"

More important than making barley sexy is making it profitable. For much of the past decade, functional foods and beverages have been one of the brightest spots in the food and drink sector. According to estimates by *Nutrition Business Journal*, sales of functional products grew at around 9 percent per year from 2000 to 2008 and now represent a $37.3 billion market in the U.S. Packaged foods manufacturers continue to seek out new functional products not only to differentiate their brands but also because the health benefits allow them to impose a markup of up to 270 percent. "We don't want to publish papers for the sake of papers," says Curtis Rempel, the institute's research development manager. "We do it to show the industry that we can make them money. That they can come here and be ahead of the competition."

A soft-spoken Mennonite with owl glasses, Rempel lives on a working farm but has a decade of agribusiness experience with Monsanto. "This is a venture capital model," he says. "We're taking a risk in the hopes of making a discovery." The prototypes scattered on Rempel's desk, including a wild rice granola bar and a canister of extracted oat oil, illustrate an insidious truth about the functional foods business: Success is nearly impossible to predict. "Look at this," says Rempel, holding up a Clif Bar wrapper. "This is a slab of sawdust infused with fruit juice. But it sells like heck. We can do better!"

The center's scientists are careful to avoid the hype that's endemic to the nutritional food business. When they performed a $250,000 clinical trial on plant sterols for Silk soy milk producer WhiteWave, they deliberately understated positive results. Such caution is the by-product of heightened enforcement from the Food and Drug Administration. In September 2009, Danone reached a $35 million settlement with consumers for overstating the health benefits of its Activia pro-biotic yogurt. In September the Federal Trade Commission sued pomegranate juice powerhouse POM Wonderland for making potentially false or unsubstantiated assertions that its beverages and other supposedly antioxidant-rich products could cure maladies ranging from cancer to erectile dysfunction. Such regulation is essential for the industry's future. "If there isn't oversight, people will stop believing," Rempel says. "This will be one of the quickest fads you've ever seen."

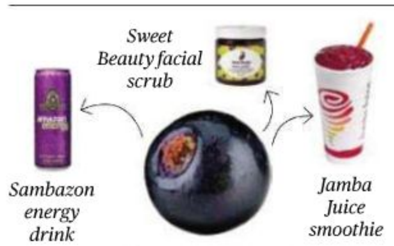
"This is a slab of sawdust infused with fruit juice. But it sells like heck," says one researcher

Although growth in the functional foods industry slowed in 2009, owing largely to the recession, the segment is primed to expand again. One reason is the Obama Administration's effort to tie a significant portion of health-care funding to states' efforts to curb obesity. "Those [programs] will have a tidal-wave-type impact," says Bob Jones, a principal at Cambridge-based consultant Scientia Advisors. Jones predicts that growth will accelerate next spring as the Surgeon General rolls out an expected anti-obesity media campaign.

For the Richardson Centre, heightened demand is escalating the race to develop the next great functional blockbuster. In addition to beta-glucans, it's investigating pea fibers that may modulate insulin levels, starch fibers that may aid digestion and encourage weight loss, and antioxidants from a wheat extract called nova bran. "When people think of antioxidants they think of pomegranates," says Dr. Peter Jones. "A pomegranate isn't patentable." However, there's still plenty of hope for a barley tortilla. Ⓑ

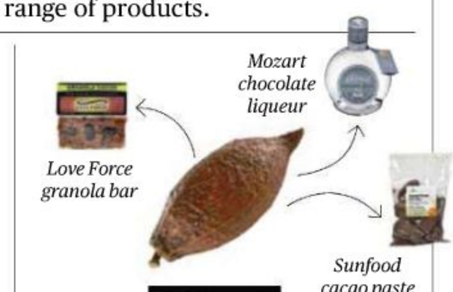
The Superfood Chain

Marketers have loved superfoods–natural edibles with (sometimes questionable) health benefits–since Popeye started eating spinach. Today they turn up in a surprising range of products.



ACAI BERRIES

These antioxidant-packed purple berries come from the Amazon. Claims of their miraculous weight loss powers, however, are unsupported by long-term studies.



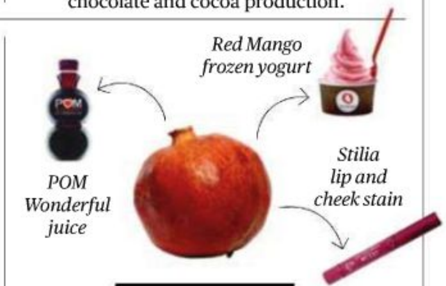
RAW CACAO

Harvested from the cacao tree, these beans are rich with health-enhancing flavanols–that usually get removed during commercial chocolate and cocoa production.



WHEATGRASS

This grass, which can be grown indoors, is said to have digestive benefits. It got its start in the 1930s, when agriculturalists noticed it boosted egg production in chickens.



POMEGRANATES

This ancient fruit became omnipresent in the U.S. over the last decade thanks to juice maker POM Wonderful, which has poured some $34 million into studies on the fruit's pro-health properties.

OPPOSITE PAGE: PHOTOGRAPHS BY FINN O'HARA FOR BLOOMBERG BUSINESSWEEK; THIS PAGE: ACAI: BERNARD PROST/STOCKFOOD; CACAO: FOODCOLLECTION RF/GETTY IMAGES; POMEGRANATE: KEI UESUGI/GETTY IMAGES; WHEATGRASS: MONICA STEVENSON PHOTOGRAPHY/GETTY IMAGES

The Late Show



Windows Phone 7 isn't another iPhone clone—but that may not matter. *By Rich Jaroslovsky*

For a tech company, a late product can be as deadly as a bad one. That may be the situation confronting Microsoft as it releases Windows Phone 7, its new smartphone operating system. The software is fun, easy to use, and not just another iPhone wannabe. The bad news: It might be too late for good news.

Once a major player in handheld devices, Microsoft has seen its market position tumble since the 2007 arrival of the iPhone and the more recent explosion of handsets running Google's Android operating system. Its comeback attempts have fared as badly as Mike Tyson's: Last year an update of Microsoft's previous software was roundly panned; this year, two new phones aimed at young social-networkers were killed off in less than two months.

Unlike those efforts, Windows Phone 7 is nothing to be embarrassed about. Microsoft deserves credit for doing some things that go against the prevailing smartphone norm. Instead of a screen covered with little app icons, users get a set of colorful rectangles that Microsoft calls "live tiles." Some provide information at a glance and summon basic functions—the phone tile, for instance, tells you how many calls you've missed and brings up the dial pad. Others link to frequently used programs, such as a mobile version of Microsoft's Internet Explorer browser. Still others are entry points for Windows Phone 7's Big Idea: the "hubs." These are collections of programs, information, and functions organized around a single theme.

There are six hubs: People, Pictures, Music & Videos, Marketplace, Microsoft Office, and Games. The People hub, for instance, aggregates your address book, Facebook friend list, and updates in one place. Music & Videos is based on Microsoft's Zune software, which is easy to use and syncs with content on your computer. Pictures is a home for your snapshots and a portal to others' Facebook photos. The hubs are easy to grasp, but not nearly comprehensive enough. Facebook is well integrated into the People hub—but Twitter isn't. The Pictures hub is great if you use Facebook or Windows Live. Prefer Flickr? It's a hassle. You can customize the home screen with your own tiles or add apps, but you'll find yourself scrolling through tiresome lists.

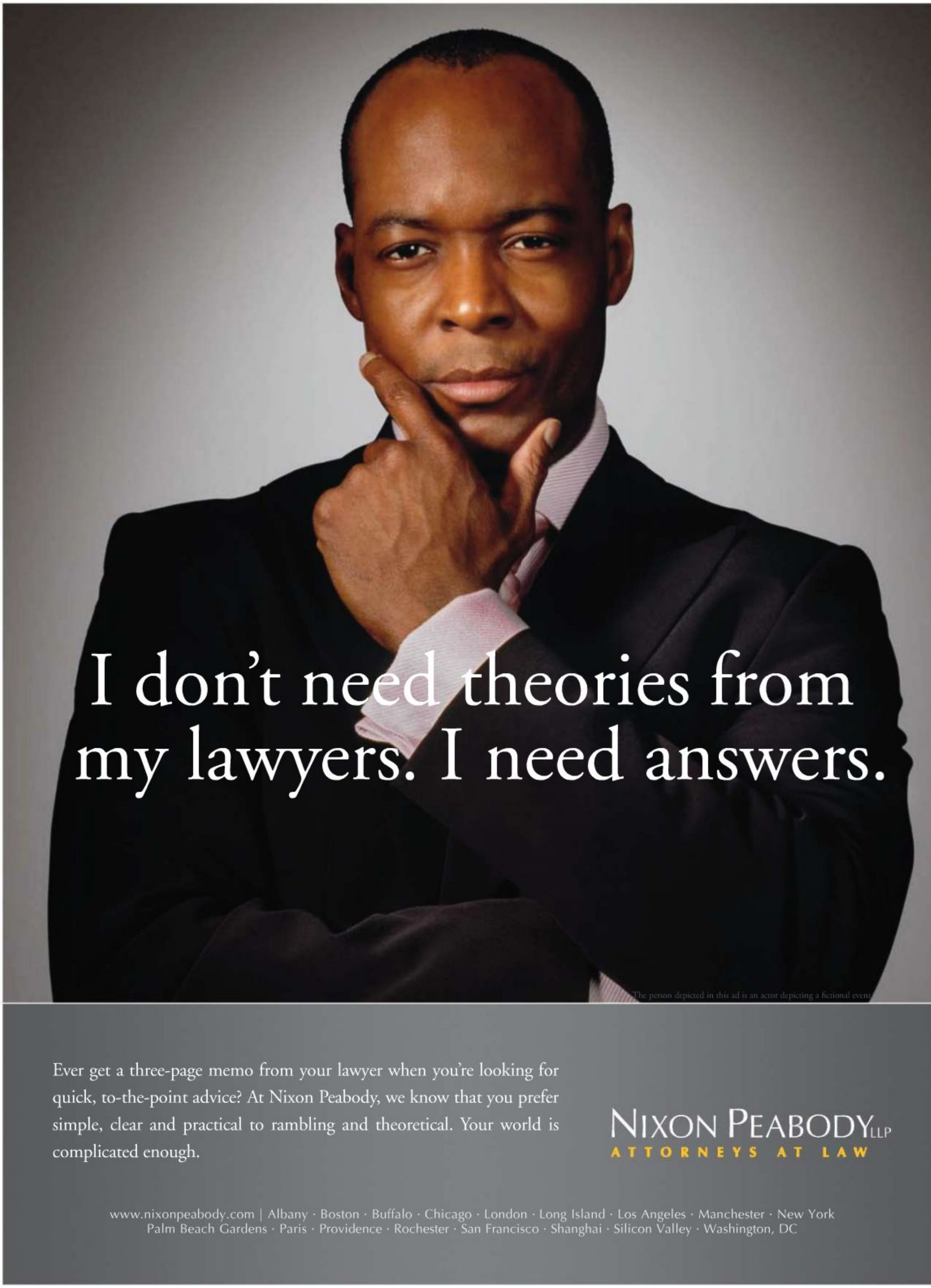
The first batch of handsets running the new software goes on sale Nov. 8. I used it on two that AT&T will offer, the HTC Surround and Samsung Focus. (More than 20 phones are expected to hit the global market by Christmas.) Microsoft will be spending big to advertise them and provide incentives for manufacturers, carriers, and developers to make Windows Phone 7 a hit. The company finally has a good offering, but good may not be good enough.

i

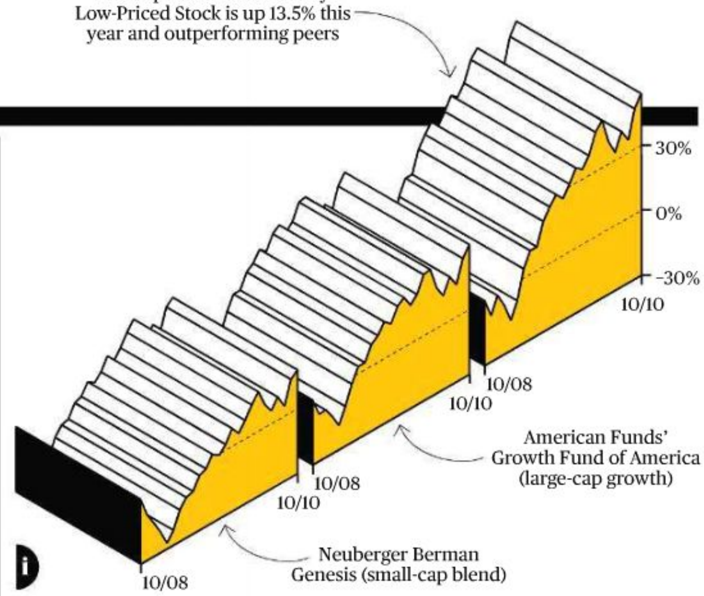
A MOBILE ARMY

More than 20 handsets running Windows Phone 7 are slated for international release by Christmas

Microsoft deserves credit for bucking the smartphone norm


I don't need theories from my lawyers. I need answers.
The person depicted in this ad is an actor depicting a fictional event
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Winners of the 401(k) Popularity Contest



THE STATS

DATA: BLOOMBERG

These three mutual funds have the most 401(k) assets of funds in their categories (large-cap stock, medium-cap stock, small-cap stock), according to BrightScope, an independent 401(k) ranking service.

A look at which actively managed mutual funds shepherd the most retirement assets and how well they do it

For investors who can bear to peek at their 401(k)s, yearend is the time to reassess portfolios. To find out which actively managed mutual funds are the most popular, *Bloomberg Businessweek* asked independent 401(k) ranking service BrightScope to screen its database, which covers 50,000 plans–including 90 percent of all assets in 401(k) plans–and uses the most recent plan data, ranging from yearend 2007 to yearend 2009. The results listed some funds, such as large-cap Fidelity Contrafund, that reward investors with good risk-adjusted returns. In Contrafund's case, active management lifts it above the crowd. Others, such as small-cap growth fund Vanguard Explorer, are underperforming their benchmark indexes. Here's a look at the popular kids in three fund categories. B —*Suzanne Woolley*

The skinny on top funds



1. Large-Cap Stocks

American Funds' $151.3 billion Growth Fund of America dwarfs the No. 2 fund, $68 billion Fidelity Contrafund. Growth Fund, whose nine managers track 283 stocks, has energy as its largest sector (7.2 percent), and Oracle as its top holding. As assets have swelled from $37.7 billion in 2000, so has its overlap with the S&P 500, according to Morningstar, as measured by "active share"–a gauge of overlap between fund holdings and a benchmark index. Growth Funds' overlap rose from 33 percent in September 2005 to 45.7 percent this past quarter (Contrafund's rose from 23.8 to 26.2). Contrafund, managed by William Danoff, has 472 stocks, and 32 percent in technology. (Top holding: Apple.) It consistently outperforms Growth Fund.



2. Mid-Cap Stocks

Fidelity Low-Priced Stock heads up mid-cap funds, with a 10-year annualized return of 11.5 percent, vs. 6.8 percent for runner-up T. Rowe Price Mid-Cap Growth. Fidelity's $30 billion fund holds 907 stocks while rivals hold from 76 to 365. A third of assets are outside the U.S. in companies like the Canadian grocer Metro and U.K. retailer Next. Another widely held fund, Fidelity Mid-Cap Stock, is up 11.6 percent this year. Its 17.3 percent stake in financials (as of Aug. 31) has depressed returns. Mid-Cap, which tends to hold cyclical plays, "aims to be a core fund, but has a growth bent," says Morningstar analyst Christopher Davis. "If you want all your mid-cap exposure in one fell swoop, I'm not sure this fund can do that."



3. Small-Cap Stocks

The top pick: Neuberger Berman Genesis. The $10 billion blend fund has a 10-year annualized return of 10.6 percent, vs. 3.7 percent for the No. 2 fund, Vanguard Explorer. The top holding among its 126 stocks: salt and potash producer Compass Minerals. Explorer, which holds 659 stocks, trails the Vanguard Small-Cap Growth Index over 10 years. (Explorer uses the Russell 2500 Growth Index as its benchmark.) Daniel P. Wiener, editor of newsletter *The Independent Adviser for Vanguard Investors*, notes that Explorer's number of holdings has been cut by 40 percent over the last 12 months. Even so, he says, Explorer, managed by six sub-advisors, "has too many cooks in the kitchen and the meal they're making isn't particularly tasty."

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Forget tear gas. Madison's annual Halloween party has gone corporate



Taunting the cops on State Street, 2005

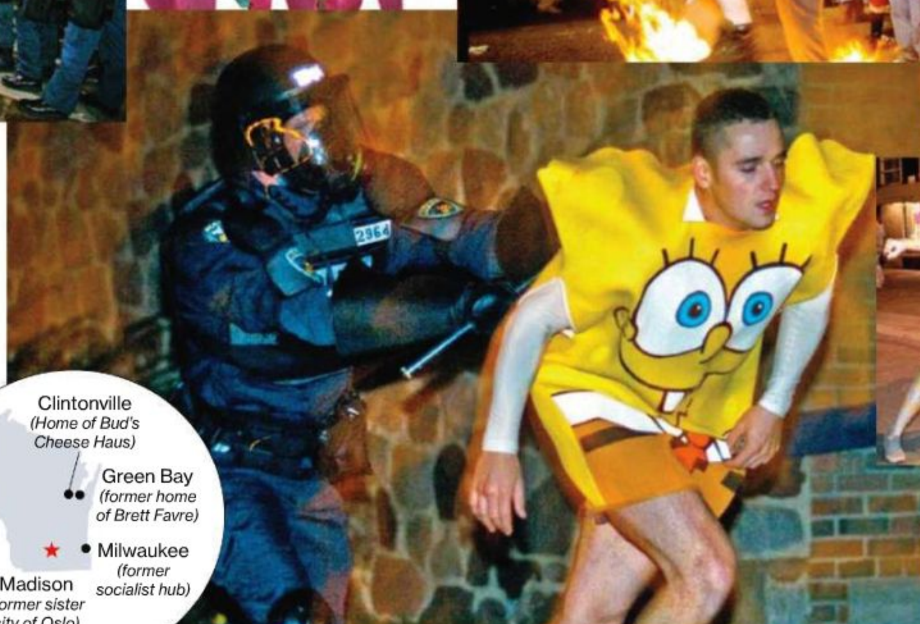




A fire-walker shows off his tricks before police fire pepper spray, 2004







An officer spoils SpongeBob's fun, 2004





Mayhem! Sponsored by...

How a Midwestern mayor rebranded one of America's rowdiest parties. *By Aimée Groth*

In the fall of 2005, some 100,000 college students stormed State Street, the main drag in Madison, Wis. Many of them looked for windows to smash, shops to loot, and things to set on fire. They were merely re-enacting a sacred pastime that has set the elite University of Wisconsin-Madison apart from its peers since 1977. "The main objective on Halloween in Madison wasn't just to get blackout drunk," says Andrew Tobin, a 2006 graduate and currently an art director at New York City-based advertising agency DraftFCB. "It was to incite enough of a ruckus that riot police had to show up on horseback with tear gas and pepper spray."

No one does Halloween like Madison. In 2005, more than 450 people were arrested while $350,000 of taxpayers' money was spent on controlling the chaos. For decades, college students from around the country have descended upon the city of more than 200,000 for a weekend-long party, punctuated by a march on State Street. In theory this should provide a mid-semester boon for local businesses. "Last year I spent somewhere between $40 and $70 on one costume," says Gamma Phi Beta sorority sister Jessica Klobucar, who celebrated Halloween on four separate nights. However, the thrill of additional revenue streams for liquor stores and fast food joints has been traditionally offset by local business owners' concerns about an annual Midwestern re-creation of the L.A. riots. After Halloween 2002—the first year police used tear gas and pepper spray—many retailers began standing in their stores with the lights on to prevent vandalism. "They had to spend the entire night in there," says Mary Carbine, executive director of Madison's Central Business Improvement District advocacy group.

Madison's Halloween party used to resemble an annual re-creation of the L.A. riots

Dave Cieslewicz, Madison's mayor since 2003, tried for years to turn the event around. He'd banned glass on State Street during Halloween, and had law enforcement train for the event on mounted horses. Nothing worked. After the mayhem of 2005, how-





Even college kids know: Image is everything, 2009



A superhero cited for an open container is handcuffed by sherriffs, 2007



A mob chants around a bonfire on State Street, 2004







ever, everything changed. Cieslewicz didn't cancel Halloween in Madison: He took it corporate.

In 2006, Cieslewicz branded the event "Freakfest" and gated a stretch of State Street as its venue. He charged revelers $5 to enter, installed floodlights, and capped attendance at 80,000. At a cost of $400,000–80 percent of which was spent on security–it was Madison taxpayers' most expensive Halloween ever. At the end of the night, though, no one had been pepper sprayed. "There were charges that I was sanitizing this great organic event," says Cieslewicz. "It was very controversial." Nevertheless, Cieslewicz was reelected six months later.

The following year Cieslewicz hired concert promoter Frank Productions to organize the event. Sponsors, including Mountain Dew, endorsed the evening, and harmless pop band Lifehouse played a set. In 2009 the city recovered $170,000 through ticket sales. Aided by $30,000 from sponsors, the net cost of the event dropped 88 percent, to $41,000, and arrests were down 89 percent from 2005 totals.

This year, Cieslewicz expects about 50,000 party-goers. With revenues predicted to be around $200,000, the town hopes to break even for the first time. Students and alumni now largely accept the new status quo. Jelani Roy, a 2003 graduate who practices law in New York City, fondly remembers huddling around a bonfire with friends as police fired tear gas canisters. "Halloween used to be our thing. For the students, by the students," Roy says. "Now it's theirs." Of course, the city views the transition differently. "Since we rebranded the event," says Joel DeSpain, Madison's public information officer, "it's become something we're proud of."

"Halloween used to be our thing," says one University of Wisconsin alumnus. "Now it's theirs"

The takeover has also benefited business owners, who view the diminished threat of hooliganism as a good thing. For example, Ian's Pizza on State Street brought in $14,000 last Halloween, thousands more than it brings in during football weekends. "The thing with Halloween," says Ian's general manager Lexy Frautschy, "is that people from other cities and states come into town to party." That remains the core of Madison's business plan. "The city is making money off of students walking down a public street during one of the best parties on any campus in America," say Tobin. Who said no one ever learned anything in college? B

MONROE: MICHELLE STOCKER, THE CAPITAL TIMES/AP PHOTO; THE CAPITAL TIMES (7); THE WISCONSIN STATE JOURNAL (5); SAILOR AND FRIENDS: STEVE APPS, WISCONSIN STATE JOURNAL/AP PHOTO

With 3 million viewers and 9 million listeners, Glenn Beck takes home $32 million per year

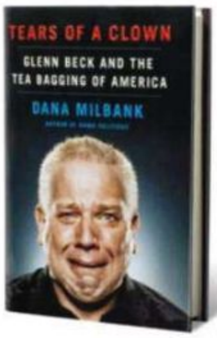


The "Mad as Hell" Marketing Strategy

Whether clever or cuckoo, Glenn Beck is raving all the way to a fortune. *By Christopher Buckley*

As the saying goes: You can fool some of the people some of the time—and those are the ones you need to concentrate on. The ones Glenn Beck is concentrating on are his nearly 3 million Fox News viewers, the 9 million who tune in to his radio show, and the 3 million who buy his books. Beck burst onto the national scene, and into his signature tears, on Jan. 19, 2009—that is, the day before Barack Obama (aka The Antichrist) was sworn in as our 44th President. The featured guest on his show was Sarah Palin, and there, as Tom Wolfe might say, you have it all: our twin *pasionarias* of paranoia, hitting the jackpot. Beck's annual paycheck, according to *Forbes*, is around $32 million. By day he rails about the Obama Administration's secret concentration camps for political dissidents. By night he sleeps behind fortified walls in New Canaan, Conn. Nice work if you can get it.

Tears of a Clown: Glenn Beck and The Tea Bagging of America
by Dana Milbank
DOUBLEDAY, 272 pp, $24.95



In *Tears of a Clown*, Dana Milbank, a columnist for *The Washington Post*, has written a lively and depressing book. Demagogic crackpots are hardly new to the American scene. Readers wondering when Milbank will invoke Howard "I'm mad as hell and I'm not going to take this anymore" Beale—the deranged TV anchor in Sidney Lumet and Paddy Chayefsky's brilliant 1976 movie, *Network*—will find him on page 87. Father Coughlin, the Nazi-sympathizing, anti-Semitic radio priest of the 1920s and '30s, arrives on page 207. Beck stops just short of outright anti-Semitism; though, Milbank writes, he's clearly troubled by the "disturbing hair" in George Soros' nose. Such illuminating details make it hard to read this account of an unbeautiful mind without wondering whether Beck is either a) certifiably cuckoo or b) putting on a very clever and very lucrative act.

Take a random paragraph about this past summer: "Beck has in the last few weeks mocked the President's eleven-year old daughter; praised Joseph McCarthy; recommended the work of an anti-Semitic author; released a 'rooted-in-fact' thriller about the United States succumbing to a world government; marveled that a Sarah Palin biographer has not been punched in the face; and given his con-

sidered opinion that the private sector 'could probably take care of things in Afghanistan better' than U.S. troops. Beck has been in what could be called an Ann Coulter spiral: Each outrage must pack more shock value than the previous. The difference is that Beck, unlike Coulter, has millions of passionate followers." Whether or not he's actually deranged, he's raving all the way to the bank.

Beck has a few traits in common with various other messiahs. First among these is his untidy past. He bottomed out on cocaine and booze in the late 1990s as a New Haven radio talk jock. Yet Beck is candid about his past: "I was a monster," he's confessed. "I'm a recovering dirtbag," he's proclaimed, and some readers may be inclined to agree, at least with the latter half of the sentiment. His trinity of virtues, frequently illustrated on his trademark chalkboard, consists of "God, gold and guns." His Fox News colleague Bill O'Reilly–who, by contrast, comes off as thoughtful and intellectually collected–is seen here poking fun at the gold fixation. However, that, too, is another part of the Beck empire: One of his biggest advertisers, along with Kaopectate, is gold vendor Goldline International.

Beck's moment of clarity came in 1999, when he embraced the Mormon faith, at which point the plot thickens–or congeals. Milbank tells us that he came under the influence of a noxious Mormon–and John Bircher–by the (perfect) name of Cleon Skousen. Now deceased, Skousen "regarded *The Manchurian Candidate* not as a fictional movie, but as a documentary," Milbank explains. "A Brigham Young University professor, he reacted to pressure on the Mormon Church to ordain blacks as priests by declaring that communists were attacking the Mormons." Little good is likely to come when you start with a Cleon Skousen as your role model. To its credit, the Mormon Church seems aware that in Beck it has a live grenade in the pew. Though the 10 percent tithe on $32 million must be some comfort.

Beck's other infatuations include Obama, one-world government, slavery, Hitler, doomsday (coming soon), and Woodrow Wilson. Yes, Woodrow Wilson. Beck has described our 28th President, Milbank says, as a "dirtbag racist," "one evil SOB," and "possibly the spookiest president we've ever had." "The Progressive Era," Milbank explains, "was the time of muckrakers and such things as the struggle to abolish child labor, break up monopolies, clean up meat-processing plants, and give women the right to vote." For Beck, "This was a very dark time in our nation's history."

A dark moment from Beck's short history: When Obama arranged that (somewhat odd) "beer summit" between Harvard professor Henry Louis Gates Jr. and the Cambridge (Mass.) cop who arrested him for breaking into his own house, Beck jumped the shark, informing his viewers that Obama "has a deep-seated hatred for white people or the white culture." This assertion did not go down well; most people, including many of his colleagues at Fox, reached for the Kaopectate. Beck responded in typical fashion: "I'm not saying he doesn't like white people." Milbank wearily points out that, well, actually, in fact, that's exactly what he said.

By this point, readers may have arrived at a scarier conclusion. After all the fearmongering and the ignoramus statements, they may shrug and marvel, yet again, at the wonderful, generous employment opportunities America provides to its whack jobs, so long as they entertain us. On that score, the author of this useful, timely, and even important book gives due credit. Love him, hate him, fear him, there's no denying Glenn Beck is "an entertainment genius." The only remaining question is whether the rodeo clown is having the best laugh of all. Ⓑ

The Best And the Rightest

Five outspoken conservative heavyweights who give Glenn Beck a run for his money. —*Marnie Hanel*



	Bill O'Reilly	Henry Kissinger	Ann Coulter	Rush Limbaugh	Tucker Carlson
PATH TO POWER	Weatherman and *Inside Edition* anchor climbs ladder	Diminutive Harvard academic finds big voice in Washington	Twice-fired MSNBC legal correspondent turns columnist/pundit	Kansas CityRoyals marketing employee heads for the majors	Swanson heir rises to co-host *Crossfire*, falls to *Dancing With the Stars*
PUBLICITY PLAY	Started a war of words with America's Sweetheart Jennifer Aniston about single parenting	Once asked to spend New Year's Eve with Candice Bergen, despite two-decade age difference	Leaked description of Clinton's "distinguishing characteristic" as adviser to Paula Jones	Launched anti-Obama "Operation Chaos" asking Republicans to vote for Hillary in 2008 primaries	Purchased KeithOlbermann.com
MEA CULPA MOMENT	Promised to "never trust" Bush again if there was no evidence of WMDs in Iraq	Called Indira Gandhi " a bitch" in taped conversations with Nixon	Quipped, "No wonder you guys lost" to a disabled Vietnam veteran on air	Resigned from ESPN after racially charged comments about Donovan McNabb	Mistakenly described John McCain as sleeping during the 2007 State of the Union
STICKS AND STONES	"The Sisyphus of morons" -Keith Olbermann	"How does it feel to be a war criminal?" -Peter Jennings	"Insulting, confusing" -Meghan McCain	"Bonehead" -David Letterman	"A d--k" -Jon Stewart

According to Beck, Woodrow Wilson was a "dirtbag racist" and "one evil SOB"

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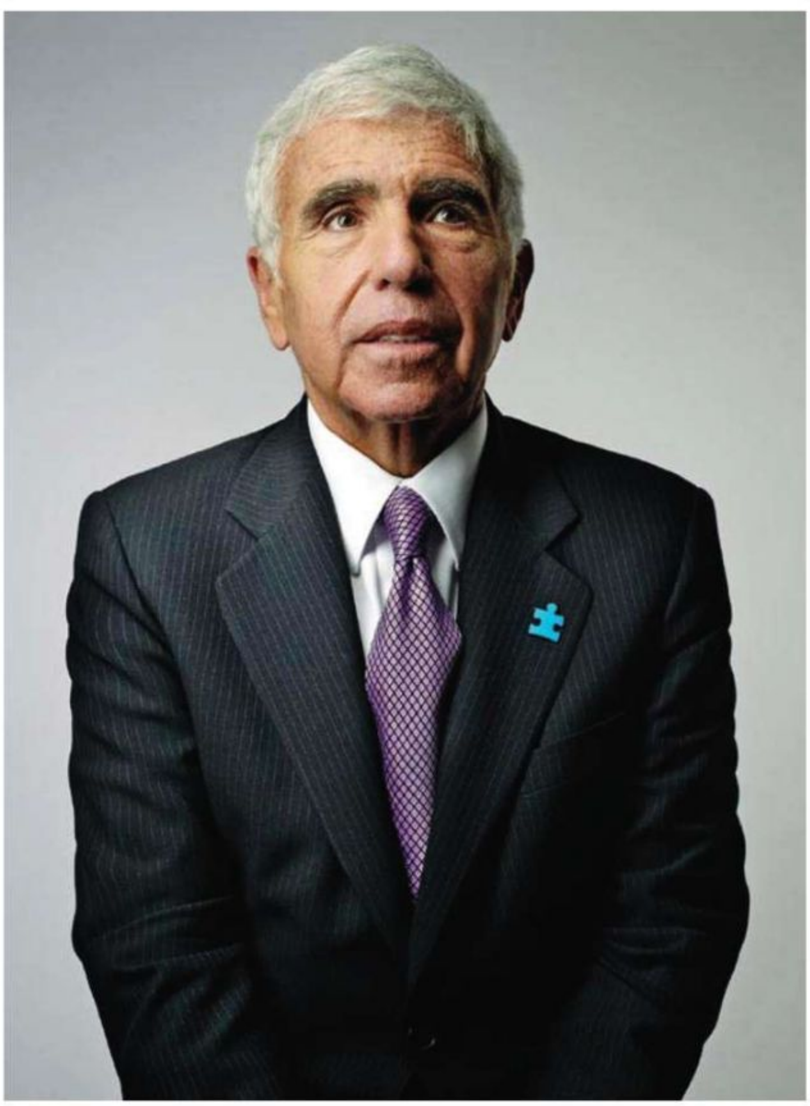
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Mel Karmazin

"The choice was between the Sirius person and the XM person.... We didn't want more people losing their jobs than was necessary"

The Sirius XM chief on learning to manage, going with his gut, and picking who gets to stay on the job after a merger of equals



When we completed the merger of Sirius and XM in 2008, there was a lot of redundancy: two CFOs, two general counsels, two heads of programming, and other roles where there were two people when we only needed one. For every position, I had to pick between two qualified people.

It was very hard: About 500 people had to lose their jobs. Not because they weren't good, but because we didn't need them. I decided that we weren't going to try to find the single best person for each job. The choice was between the Sirius person and the XM person. We didn't look at anyone outside. We didn't want more people losing their jobs than was necessary.

The first thing I did was get to know the people who were going to report to me: I interviewed them and had to decide who was better. Knowing someone well can cut both ways. You know their strengths, but you also know their faults. It's not a perfect science–and I probably made mistakes–but I don't look for qualities I might have. I'm more impressed with someone who's not like me. It's because of my own insecurity: My father was a cabdriver, my mother worked in a factory, and I was a C student.

There's no best way to do something. When I first became a manager, my inclination was to think my style was right because I was the one who had been promoted. I learned it's not about style. Some people get out of a huddle and walk to the line of scrimmage while others run. I don't think that matters. What matters is what happens when the ball is snapped.

I try not to be as hands-on as I would like. People need to feel they're running their own business. I'll offer up opinions, but I try not to tell them what to do. When I make a decision, I tend to consider the facts and make it quickly. You just have to focus on the endgame. I think about what's right for our shareholders and subscribers. If I can make these decisions, anyone can. B —*As told to Diane Brady*

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